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16-19 March 1987, Addis Ababa, Ethiopia

AFRICA'S ECONOMIC RECOVERY, GROWTH AND DEVELOPMENT: PROPOSALS FOR UNCTAD VII

TABLE OF CONTENTS

	Paragraphs	Page
INTRODUCTION		1-2
PART I. AFRICA AND UNCTAD RETROSPECTS	1-38	3-14
A. General Background	1-4	4-5
B. The Nature of Major UNCTAD Decisions of interest to Africa	5-35	5-12
(a) Decisions addressed to the industrialized countries (Group B)	7-27	5-10
(i) Commodity Issues	7-11	5-7
(ii) Development finance and resource flows	12-17	7-8
(iii) Protectionism	18-23	8-9
(iv) Problems of least developed countries	24-27	9-10
(b) Decisions addressed to the Socialist countries of Eastern Europe (Group D)	28-29	10-11
(c) Decisions addressed to the Group of 77	30-36	11-12
C. GENERAL OBSERVATIONS	37-38	12-14
PART II: DEVELOPMENT FINANCE, RESOURCE FLOWS AND EXTERNAL DEBT	38-69	15-31
A. Background	39-40	16
B. Recent Developments in International Monetary and Financial Relations	41-47	16-18
C. Stagnation in Development Finance and Resource Flows to Africa	48-55	19-21
(a) Issues of Major Concern to Africa	48-51	19-20
(b) Recent Developments	52-55	20-21

TABLE OF CONTENTS

	Paragraphs	Page
D. Africa's External Debt Crisis	56-63	22-25
(a) External Debt Relief Programmes	64-66	26
(i) Measures to be taken by African countries	64-65	26-27
(ii) Measures to be implemented by the industrialized countries	66-67	27-28
(b) Improving the quality and modality of External Assistance and co-operation	68	28-29
(c) Specific measures in support of Africa's Policy Reforms	69	30-31
PART III : COMMODITIES ISSUES	70-81	32-42
A. Background	70-73	33-34
B. Situation in Commodity Trade	74-81	34-36
(a) Commodity Exports	74-77	34-35
(b) Price trends	78-81	35-36
C. Some shortcomings in international measures for primary commodities	82-85	36-37
D. Proposals for implementing agreements on commodity issues	86-93	37-40
(a) Measures to be implemented by the African countries	88-89	38-39
(b) Measures to be implemented by the international community	90-92	39-40
(c) Improvement in the international environment for commodities	93-94	40-42

TABLE OF CONTENTS

	Paragraphs	Page
PART IV NEW DIRECTIONS IN INTERNATIONAL TRADE	95-122	43-52
A. General situation	95-97	44-45
B. Major Trends in International Trade Relations	98-118	45-50
(a) Relations with traditional partners	104-110	46-48
(b) Relations with non-traditional partners	111-118	48-50
C. Proposed new directions in international economic relations	119-122	50-52
PART V AFRICAN LEAST DEVELOPED COUNTRIES	123-150	53-62
A. Background	123-125	54
B. Recent Economic Performance of African LDCs	126-134	54
(a) Agriculture	127-128	55
(b) Manufacturing	129	55
(c) Balance of payments	130-132	55-56
(d) External debt	133-134	56
C. National actions towards the implementation of the SNPA	135-137	56-57
D. International Response to the Implementation of the SNPA	138-145	57-59
(a) Existing situation	138-141	57-58
(b) Medium-term global review of the SNPA	142-145	58-59
E. Proposed measures for the Implementation of the SNPA Tagrget	146-150	59
(a) National commitment	147-149	59-60
(b) International action	150	61-62

INTRODUCTION

We, the African Ministers Responsible for Trade and Development, acting for and on behalf of all the Governments and peoples of Africa, have met here in Addis Ababa, Ethiopia from 16 to 18 March 1987 and have adopted a common position on trade and development issues to be included in the submission by the Sixth Ministeral Meeting of the Group of 77 to the Seventh Session of the United Nations Conference on Trade and Development to be held in Geneva, Switzerland, from 6 to 31 July 1987.

We are greately concerned by the continuing critical economic situation in Africa which has affected a large number of African countries since the sixth session of the United Nations Conference on Trade and Development held in Belgrade in June 1983. This crisis was caused by a combination of endogenous and exogenous factors some of which are examined in this submission. Although the situation had somewhat improved in 1985 and 1986, many of our people continue to face acute food shortages and are therefore threatened by starvation and malnutrition. It is against this background that the Heads of State and Government of the Organization of African Unity, at their twenty-first ordinary session held in Addis Ababa in July 1985, adopted Africa's Priority Programme for Economic Recovery 1986-1990, which will guide Africa's policies and programmes relating to recovery and growth during that period.

In preparing this submission, we wish to express our deep gratitude to the United Nations General Assembly for its wisdom and foresightedness in convening the Special Session on the Critical Economic Situation in Africa in May 1986. That special session unanimously adopted the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 which epitomizes the sympathy and solidarity of the international community in seeking effective and lasting solutions to Africa's social and economic problems. The programme of Action referred to above, also laid down the basis for a "compact" between Africa and the international economic community on concrete measures for Africa's recovery, growth and development over the five year period it covers. We have extensively used the programme of action as the basis for this submission.

We have also greatly benefited from The Addis Ababa Declaration on Africa's External Indebtedness which was adopted by our colleagues, the African Ministers of Finance at their meeting held in Addis Ababa in June 1984, which examined the issue relating to Africa's external debt within the overall framework of development finance and resource flows to Africa, and which proposed concrete measures to deal with the African debt crisis by the international community.

We firmly believe that economic interdependence is the sine qua non for international relations. Therefore, as a basis for requesting international assistance, our submission has identified what the African governments are determined to do on their own to cope with the critical trade, monetary and

economic situation imposed upon them by the unfavourable international trade and economic environment based on domestic resources and technical and managerial capabilities. To this end, we have embarked or we are embarking upon far-reaching structural adjustment and policy reforms which will engender real internally - generated recovery and self-sustaining growth. We have also isolated those aspects of international trade and development, including resource flows and external debt, which we hope the international community will lend their full support on the basis of what was agreed during the Special Session of the United Nations General Assembly on the Critical Economic Situation in Africa.

The submission is presented in five parts. Part I reviews Africa and UNCTAD in retrospect. It analyses the evolution in the development of UNCTAD sessions as a forum for negotiations on trade and development issues between developing and developed countries since the inception of UNCTAD in 1964. It also indicates areas of concern due to a lack of progress not only in reaching a consensus, but also in implementing mutually agreed decisions. Part II examines the issue on development finance, resource flows and external debt. Part III outlines what we expect the international community to implement UNCTAD, in the field of commodities. Part IV outlines briefly some of the issues which are related to improvement in international trade relations including proposals for new directions. Part V outlines the problems of the least developed countries and the implementation of the Substantial New Programme of Action (SNPA) and proposals for its improvement.

Finally, this submission has been prepared on the conviction that a high degree of understanding and solidarity has already been shown by the international community at Special Session of the United Nations General Assembly on the Critical Economic Situation in Africa. Therefore, we sincerely hope that the Seventh Session of the United Nations Conference on Trade and Development (UNCTAD VII), will agree on the most expeditions ways and means of implementing the decisions of the General Assembly in the field of trade and development

P A R T I

AFRICA AND UNCTAD : RESTROSPECTS

A. GENERAL BACKGROUND

1. The purpose of this section is to briefly analyse and evaluate the major decisions of interest to African countries taken at the first six sessions of the United Nations Conference on Trade and Development (UNCTAD) with a view to assessing their impact on solving Africa's critical economic and social conditions. 1/ In doing so, special attention will be paid to the experience in the implementation of those decisions by countries or groups of countries to whom they were addressed so as to form the basis for the proposals contained in the rest of the present submission. The starting point is to refer to General Assembly resolution 1785(XVII) of 19 December 1962, whose objectives were to «seek a better and more effective system of international economic co-operation, whereby the division of the world into areas of poverty and plenty may be banished and prosperity achieved by all; and to find ways by which the human and material resources of the world may be harnessed for the abolition of poverty everywhere». This resolution laid down the basis for a new framework for international relations.

2. Two developments of great significance that emerged were the establishment of the United Nations Conference on Trade and Development institution, one of whose objectives is «to promote international trade, especially with a view to accelerating economic development, particularly trade between countries at different stages of development, between developing countries and between countries with different systems of economic and social organization, taking into account the functions performed by existing international organizations, and to formulate principles and policies on international trade and related problems of economic development». 2/

3. The second major development was the emergence of the «Group of 77 3/to provide a common platform for all developing countries to deliberate and agree on a strategy for negotiations with the rest of the world. The Group of 77 through its ministeral conference has upheld the principles of international growth with equity. It has also been recognized as the voice of the poor and underprivileged nations of the world.

4. The establishment of UNCTAD was indeed a matter of great hope and expectations for the developing countries of Africa. We in Africa, saw this forum as a landmark in the development of effective and mutually beneficial dialogue between the industrialized nations of the market economy countries and the centrally planned economies on the one hand and the poor nations of Africa on the other hand. Therefore, starting with the first session of UNCTAD held in Geneva in 1964, through the sixth session held in Belgrade in 1983, African

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1/ This submission deals with UNCTAD as a negotiating institution and not with the UNCTAD secretariat.

2/ See United Nations, Trade and Development: Final Act and Report, Vol. I, page 15.

3/ This originally consisted of 77 developing countries but its membership has now considerably grown in members.

such negotiations. But the question that always arises in the minds of African policy-makers is: Has UNCTAD really achieved its objectives or to put it differently, has Africa gained much or anything at all from the six preceding UNCTAD sessions? Is there anything intrinsically wrong with the United Nations Conference on Trade and Development as a forum for deliberating and agreeing on policy issues for international relations? Are there new ways and possibilities to make the consultations and dialogue in UNCTAD more effective and meaningful?

B. THE NATURE OF MAJOR UNCTAD DECISIONS OF INTEREST TO AFRICA

5. In order to answer these questions raised in the preceding section objectively, one would require a very comprehensive review and analysis of the various decisions adopted by UNCTAD since 1964. This is evidently beyond the scope of this submission. Therefore a short-cut but effective approach is to confine ourselves to identifying some of the major decisions of interest to Africa. This analysis therefore confines itself to selected matters relating to commodity issues; international trade; protectionism; resource flows; external debts; and least developed countries.

6. For purposes of brevity and convenience, three broad categories of decisions have been examined in this submission. These include: (a) decisions addressed to the industrialized countries of the market economies (or «Group B» countries); (b) decisions addressed to the Socialist countries of Eastern Europe (centally planned economies or «Group D» countries); and (c) decisions addressed to the «Group of 77» (developing countries).

(a) Decisions addressed to the industrialized market economy countries (Group B)

(i) Commodity issues

7. The commodity issues are centred around the need to ensure remunerative prices for products, stability and thereby to promote sustained growth in developing countries and for an effective system of compensatory financing to balance shortfalls in commodity export earnings resulting mainly from (a) in world commodity prices. The establishment of the Integrated Programme for Commodities and the Common Fund are among the major decisions taken by UNCTAD in this field. It is important to stress here that the failure by developed countries during the first three sessions of UNCTAD to embark on an integrated commodity policy approach taking into account the mutual advantages of action to the benefit of the Third World. The industrialized developed countries were partially non-committal because while they subscribed to the principle, they refused to be drawn into a consensus on the matter preferring a commodity-by-commodity approach over an extended period of time. As a result, consultations held during the period, covering commodities, brought little in the way of results due to their lack of concrete action.

8. In the wake of the impetus given by the UN General Assembly Special Session on raw materials and development in May 1974 and the adoption of the Programme of Action on the Establishment of New International Economic Order, UNCTAD subsequently adopted the Integrated Programme for Commodities (IPC) at its Fourth Session held in Nairobi in 1976. This quickened the pace for intergovernmental discussions in a broad range of commodities and with it, Africa's hopes were raised. In fact, the satisfaction and direct support of the IPC by the developed countries was the best condition for its success. Resolution 93(IV) on IPC established a specific timeframe for negotiations on the 10 commodities which were to be completed by February 1987. 1/

9. The process was intensified at the Fifth Session of UNCTAD held in Manila in 1979 with the adoption of new details to the IPC scheme. The most significant aspect was the consensus reached on the increased participation of developing countries in the marketing, distribution and transformation of commodities, as well as in the processing of primary products and the need for compensatory facility for exports earnings shortfalls. However, the momentum seemed to have stopped during the Sixth Session of UNCTAD because virtually nothing new was achieved. The resolution adopted at UNCTAD VI merely provided for the examination of the issue of IPC by the respective subsidiary bodies of UNCTAD. In other words, UNCTAD VI had actually shifted the issue from itself to its subsidiary bodies and thereby slowing the pace of negotiations while in the meantime the problems of commodity export countries continued to be under considerable strain.

10. Although there is general agreement that the adoption of IPC was in principle, a major breakthrough in the field of commodity problems, regrettably, the non-implementation of the IPC after nearly a decade is viewed by African countries as a failure of international cooperation in commodities. For instance, since the adoption in 1976, only one new international commodity agreement (ICA) covering rubber, with pricing provisions has been negotiated. Two others dealing with jute and tropical timber have been adopted but these do not have similar provisions. Renegotiation of existing ICAs like those for cocoa and coffee have proved more arduous than before. Measures of precarity of primary products and the need for a compensatory facility have been examined separately, not tied to any individual ICA and have not led to any practical action.

11. Perhaps the most glaring example of the shortcomings of the UNCTAD forum in respect of resolving pressing commodity problems has been the impasse on the Common Fund. The Common Fund, which was to become the financial core of the system of ICAs, acquired a political significance, potentially as a concrete manifestation of the New Economic Order. However, the non-ratification of the

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1/ These commodities were coffee; cocoa; tea; sugar; cotton and cotton yarns; jute and jute yarns; sisal; rubber; copper; tin; hard fibres; tropical woods, manganese ore; phosphates; bauxite; iron ore; vegetable oils and oilseeds.

Agreement on establishing the Common Fund by the major industrialized countries of the market economies as well as the Socialist countries of Eastern Europe has aborted any possible advantages that would have been derived from the pooling of resources on a global scale. Until now the Common Fund has not yet become operational because of the lack of support by the United States of America, the Soviet Union and their respective allies.

(ii) Development finance and resource flows

12. Another area where industrialized market economies have failed to make favourable impact on Africa relates to development finance and resource flows. Since UNCTAD I, the issues of major concern to Africa have been (a) financing shortfalls in export earnings; (b) increase in resource inflows on concessional terms; and (c) improving the policy and operation of the Brettonwoods Institutions (World Bank and International Monetary Fund) to respond more favourably to Africa's development needs. Later, the issue of Africa's external indebtedness emerged as more and more countries experienced difficulties in servicing their debts. With regard to the foreign exchange earnings, the main areas of concentration included financing of shortfalls in export receipts of developing countries, supplementary financing to help these countries avoid disruption of development programmes growth and linking issues of aid with indebtness problems of developing countries.

13. In tackling these issues, UNCTAD adopted a two fold approach: identifying and securing a broader appreciation of major issues and seeking to influence decisions at the global level (including steps within the framework of such organizations as the International Monetary Fund (IMF) and the World Bank). It is therefore logical that UNCTAD's work has dealt with such issues as reviewing the impact of the operation of the IMF's Compensatory Financing Facility, structural adjustment loan of the International Bank for Reconstruction and Development (IBRD), the link between the Special Drawing Rights (SDR) and development finance etc. These activities have been reflected in the various resolutions of previous Conferences, including UNCTAD VI which reiterated the continuation of work in this area.

14. A break-through was not achieved until the Fifth and Sixth Sessions of UNCTAD when the developed countries consented to the adoption of resolutions 129(V) and 164(VI) pledging themselves to increase ODA flows to developing countries to 0.7 per cent target by 1985 or not later than the second half of the decade. These resolutions also provided for the easing of aid conditionality, by increasing the degree of concessionality, covering more programme aid, quick disbursing of funds and local cost financing. Moreover, it was also agreed that aid had to be «united» and provided in a manner that was increasingly assuring, continuous and predictable flow.

15. The implementation of these targets have, broadly speaking, been disappointing. For example, collective ODA performance of OECD countries is less than half of the agreed 0.7 per cent of their GDP. Only a few countries out of the whole membership of this organization have reached or exceeded this target. The quality of the aid has not improve either. In point of fact, the concessionality has tended to decline, and general conditions of ODA remained the same.

16. Another aspect of considerable importance which has been pre-occupying participants at UNCTAD sessions is the issue of external debt of developing countries. Special attention for instance has been given to institutional aspects of debt rescheduling. Thus, UNCTAD III tackled problems of debt servicing while UNCTAD IV examined debt problems of the Least Developed Countries (LDCs). An agreement was reached to increase aid to LDC by about 0.15 per cent of GNP of industrialized countries. UNCTAD V and UNCTAD VI on the other hand, centred their focus on aspects of resource flows.

17. A certain degree of success has been achieved in this area through UNCTAD. The most notable is the recognition by the international community of economic development as a legitimate objective and a shared responsibility, with the transfer of resources as a natural corollary of this global development strategy. There is also a consensus that external debt is an integral part of the development problem. Consequently, in many instances, despite the negative attitude of some donors, international consensus has been reached on aspects related to debt relief measures. The main point of concern for Africa is that many developed countries have neither implemented nor moved towards achieving the targets of these recommendations.

(iii) Protectionism

18. The issue on «protectionism» is another major cause for concern for Africa in the implementation of UNCTAD decisions by the industrialized countries. This issue is best discussed within the context of trade in manufactures. UNCTAD has faced tremendous problems in finding solutions which could have led in a relatively short time to reducing and possible abolishing tariffs on all products of interest to developing countries in the markets of developed countries without obligations on the part of the former to make reciprocal concessions. Thus the idea of a Generalized system of Preferences (GSP) was adopted in principle at UNCTAD II. The work on problems of restrictive business practises and non-tariff barriers was also decided at an early stage and refined further at UNCTAD III.

19. The GSP was introduced in 1972, although as a major policy initiative it belonged to the 1960s. It consists of 16 separate schemes involving 20 developed market economy countries and six socialist countries of Eastern Europe. A significant work of GSP relates to improvement of some of the protocols. However, in the 1980s, resulting from the Tokyo Round on liberalization agreement, developing countries begun to bear the brunt of the erosion of preferenticl margins. This negative developmnt was due to the policy of graduation which caused a significant retrenchment of its benefits. 5/

20. Consequently, the issue today concerns not so much the pace at which the system should be improved but rather, the preservation of the benefits already enjoyed by Africa. In point of fact, the process of improvement has since 1981 nearly come to a halt. It has given way to graduation measures which constitute a direct threat to the basic principles of the GSP. For instance, attempts are made by a number of preference giving countries to obtain reciprocal treatment by the backdoor from the beneficiaries of the scheme.

5/ UN, The History of UNCTAD: 1964-1984, New York, 1985, pp. 111-112.

21. Another important area of particular concern for developing countries is that of non-tariff measures and related problems which these issues raise. This issue has been under surveillance and consideration within the UNCTAD framework since its inception. In the earlier period, UNCTAD adopted a number of resolutions calling upon developed countries to reduce or eliminate non-tariff barriers. For instance, by resolution 96(IV) in 1976, UNCTAD requested the developed countries to improve access to their markets for exports provided by developing countries, especially through reduction or elimination of non-tariff measures, or where this was not appropriate, by reducing or eliminating their trade restricting or distorting effects which applied to products of export interest to developing countries.

22. In 1979, UNCTAD V adopted resolution 131(V) on protectionism and structural adjustment, requesting developed nations to take action to facilitate access for products of export interest to developing countries. UNCTAD VI saw the culmination of a process of diagnosis and of building of awareness of many of the issues related to non-tariff measures as given in resolution 159(VI). The resolution directed the Trade and Development Board to examine issues relating to the phasing-out of quantitative restrictions and similar measures, of anti-dumping and countervailing duty laws, regulations and procedures. It also requested the Trade and Development Board to follow-up the work on safeguards.

23. Despite some of the efforts by developing countries to achieve reduction in protectionism,it is evident that the results are far from being a source of comfort. Africa is concerned that although certain positive actions have been taken in this area, the overall tendency has been towards «managed trade» and more frequent resort to «flexible» measures of protectionism like anti-dumping duties.

(iv) Problems of the Least Developed Countries (LDCs)

24. It cannot be denied that UNCTAD has played a pioneering and significant role in convincing the international community to provide special measures in favour of the LDCs. Such action was initiated as early as UNCTAD II in 1968 with the adoption of resolution 24(II). The subsequent approval by the General Assembly of the first list of the LDCs in 1971 enabled all concerned to properly focus their assistance to this group of countries. At a later stage, UNCTAD III and UNCTAD IV adopted more comprehensive resolutions on the LDCs.

25. A major impetus of UNCTAD in this area was the adoption of the Substantial New Programme of Action (SNPA) for the least developed countries in 1981. This was indeed a milestone in efforts in the area of international activities for this group of countries. During UN Conference on LDCs in Paris, the SNPA was adopted establishing the target of 0.15 per cent of donors' GDP being the minimum level of ODA flows to the LDCs in order to assist this group of countries to sustain a reasonable rate of growth. The SNPA envisaged that the annual GDP growth in this group of countries at a level 7.2 per cent in order to enable them double their national income by the year 1990 thereby deal effectively with their problems.

26. Thus UNCTAD has been instrumental in the creation of a list of LDCs and increased awareness by the international community of the special needs of LDCs. The acceptance of this principle has produced a shift in the share of ODA channelled to this group, especially by the major multilateral organizations. The central task of UNCTAD has been to monitor and mobilize support in both developed and developing regions with a view to realizing not only the objectives but also the specific commitments made in the SPPA and relating them primarily to the target of 0.15 per cent of ODA levels. Although the results have not been spectacular, a solid beginning has been made.

27. Along with the above issue are questions of the replenishment of IDA and guarantees for public and private debts including rescheduling arrangements with LDCs. There has also been the need for the international community to pursue action aimed at facilitating the LDCs' trade by eliminating or substantially reducing tariff and non-tariff barriers with a view to providing better access to export products of LDCs. These issues are closely related with debate on problems of commodities, especially the need to find solutions to overcoming the export earnings shortfalls which affect adversely most developing countries most of which are LDCs.

(b) Decisions addressed to the Socialist Countries of Eastern Europe(Group D)

28. The concerns of Africa relating to commodity issues, development finance and resource flows and protectionism are also occupying the minds of African policy-makers when it comes to trade and economic relations between Africa and the Socialist Countries of Eastern Europe. For instance, these countries have not yet retified the Common Fund and have not implemented the aid target of 0.7 per cent of the 0.15 per cent to the least developed countries. In point of fact, like the market economy countries, the Socialist countries of Eastern Europe also insist on «bilateralism» as opposed to multilateralism in their relations with Africa. Africa is concerned therefore that the existence of these issues, have hampered trade and economic relations which would otherwise have assumed a more positive trend. The first real decision on trade relations among countries having different economic and social systems was during UNCTAD II with the adoption resolution 15(II) listing several recommendations on trade expansion between developing countries and this groups of countries. Subsequently, the debate and conclusions of UNCTAD III reiterated the fact that trade was becoming an integral part of a more complex process of economic co-operation. An integrated approach was proposed in dealing with issues of trade promotion and payments, in matters relating to invisible transactions where these two groups of countries were concerned.

29. Resolution 95(IV) which was adopted by the fourth session of UNCTAD contained practically the same provisions as those found or addressed in the previous resolutions. In fact, UNCTAD VI adopted the proposal of the G. 77 on financial assistance to be provided by the socialist countries to developing regions. This proposal is still under negotiation and the socialist countries of Eastern Europe have still to give their positive response and indicate ways of how this is to be achieved. These countries have often attempted to side-track this issue by introducing or relating solutions to the East-West relations which do not have direct relevance to Africa's trade with them. In fact, there are fundamental

differences of approach between developing and socialist countries on such important issues as quantitative and qualitative financial aid flows and operation of the Special Fund of the International Investment Bank.

(c) Decisions addressed to the Group of 77

30. The blame for the failure of UNCTAD decisions to make a positive impact on the developing economies cannot be placed only to the industrialized countries of the market or centrally planned economies. Part of the blame lies in the attitude of the Group of 77 themselves towards such decisions. In order to analyse this fully the problem has to be presented into two broad areas, namely, practical and institutional. With regard to practical problems, the Group of 77 has itself failed to implement some of the resolutions.

31. A case in point is the ratification of the Common Fund on which many of the countries in the Group of 77 did not comply. The Integrated Programme for Commodities did not appear to command the full support of all members of the Group of 77. Similarly, with regard to the Global System of Trade Preferences (GSTP) Among Developing Countries, many of our members have been reluctant in their support. At the South-South level, there are measures which should have strengthened our negotiating capacity as a group with the North but which have not been fully exploited. These relate to the «Arusha Programme for collective Self-Reliance and Framework for Negotiations adopted in May 1979 and the «Caracas Programme of Action Adopted by the High Level Conference on Economic Co-operation Among Developing Countries» adopted in May 1981. These documents, while being useful for reference purposes, have remained largely a dead letter.

32. With regard to institutional aspects, the Group of 77 lacks a full fledged secretariat to evaluate and monitor the implementation of UNCTAD decisions of interest to its members. Ad hoc arrangements have been made in New York, Geneva and Rome to cater for the needs of the Group of 77 but these arrangments lack a central co-ordinating mechanism. The result has been that instead of monitoring the decisions taken at UNCTAD sessions ab initio, one tends to wait until the approach of the next session of UNCTAD to start a post-facto evaluation which is often too late.

33. UNCTAD was the first UN agency to recognize the need to incorporate issues of economic co-operation among developing countries (ECDC) into its work programme. In 1968, following the adotion without dissent of the Comprehensive Concerted Declaration by UNCTAD II, the emphasis was placed on helping sound integration schemes among developing countries through technical assistance. At UNCTAD IV, the basic proposal of instituting trade preferences among developing countries - later to be termed the global system of trade preferences (GSTP), was formally recognized as a support mechanism in promoting co-operation among state trading organizations (STOs).

34. The rationale for GSTP was based partly on the belief that it could facilitate the removal of obstacles to exports of developing countries, particularly the non-traditional ones. The architects of the scheme were of the opinion that it could compensate through preferential market access. Similarly, they thought that GSTP could stimulate, diversify and stabilize export growth between developing countries. 6/ The scheme was also designed to give concrete expression to developing countries' political commitment to the concept of collective self-reliance.

35. Regrettably, after several years of actual standstill and protracted disagreement, an evaluation of the GSTP must be qualified by the fact that negotiations have barely started and the likelihood that concrete results in terms of GSTP-induced trade expansion, if any, cannot be expected for a number of years to come. It should also be stressed that although the New Delhi Conference in 1985 and the Negotiating Committee of the Group of 77 on GSTP, held in Brazilia in May 1986, led to actual launching of the first round of negotiations on GSTP, Africa's involvement in the process remains relatively low. At the time of writing this chapter, only 17 African countries had announced their intention to take part in the GSTP negotiations. The same slow response has also been evident for the Asian and Latin America developing countries.

36. The extent of implementation of ECDC resolutions within the context of overall UNCTAD activities is clearly shown by the slowness with which new initiatives emerge through the intergovernmental machinery. If developing countries consider each other as potential sources of satisfying their respective needs or alternatively as major areas for overcoming their weakness and dependence in such spheres as food and energy, then why is there such a poor performance? There is very little that UNCTAD resolutions and secretariat initiatives can do apart from offering technical assistance, if the Group of 77 itself does not take up the matter seriously. Moreover, even when positive decisions have been reached, developing countries themselves have to be blamed for showing lack of political will to implement them.

C. GENERAL OBSERVATIONS

37. We in Africa are gravely concerned that each UNCTAD session seems to result in fewer and fewer areas of consensus between the developing and the developed countries. In fact, the results of UNCTAD VI were particularly disappointing for us. 7/ For this reason, we have especially observed the following negative tendencies in the North-South dialogue within the framework of UNCTAD sessions:

6/ See ECA, Global System of Trade Preferences Negotiations: Products of Interest to African Countries, E/ECA/TRADE/27, August 1985.

7/ See ECA/OAU, «Review and Assessment of the Sixth Session of the United Nations Conference on Trade and Development (E/ECA/OAU/TRADE/11).

(a) The industrialized countries of the market economy countries appear to have approached UNCTAD session with indifference and lack of commitment. On a number of issues, they retracted from their earlier commitments: they have delayed decisions on issues by requiring them to be debated further at lower levels or other bodies: and they have insisted that nothing should be done to distrurb their process of «recovery which if allowed to proceed unabted would in turn rescue the economies of developing countries». They also continue to argue that their economies are characterized by declining industrial production and investment resulting in large scale unemployment, inflation, mounting interest rates, unstable exchange rates and increased protectionist measures. According to them these problems are cyclical in nature and require a policy mix aimed at bringing about economic recovery. They advocate,in this regard,that their possible solutions should include appropriate consumer demand management deflationary policies, increased investments in directly productive sectors and a decrease in nominal rates of interests. These policies, according to industrialized countries, would continue to strengthen and consolidate world growth of the industrialized nations. In so doing, they emphasize concept of the «trickle-down effects» of recovery on their economies as a way of helping to re-activate economic development in the developing countries. In other words, the idea of self-generating growth and recovery in the developing countries is not part of global economy unless it is subsidiary to that of their own economies.

(b) From the point of view of the African countries, the centrally planned economies of Eastern Europe also failed to make any positive contribution towards the central theme of development and recovery. They persistently refused to commit themselves towards the transformation of developing and what they could provide as solutions or positive measures to overcome the international economic crisis especially as this affects the developing countries. In areas where African countries expected them to make tangible and material sacrifices, such as for instance, in strengthening trade co-operation and aid between the centrally planned economies and developing countries, the interest of the later were sacrificed in pursuit of the former's interests vis-a-vis their rivals of the Western powers. This was demonstrated for instance, by their insistence to open debate on some aspects of «the East-West confrontation» which in effect did not advance the cause for which UNCTAD VI had been convened.

(c) In general, right from the inception of UNCTAD, it became evident that the Conference faced logistic and institutional difficulties of agreeing on a common negotiation platform. This was because the fundamental differences of the groups especially in their understanding of the underlying causes of the world economic crisis were allowed to overshadow the conceptual approach to solutions of global economic inbalances. Apart from the group attitudes mentioned above, which were general in nature, there were also differences on specific areas on key issues of vital importance to the economic growth of the developing countries. As is now well known, during the past twenty years, there has evolved a tradition within the United Nations system and in UNCTAD in particular for a negotiating approach by groups. Hence, the negotiating process during UNCTAD VI took the form by which the Group of 77 on the one hand, confronted the developed countries of the OECD (Group B) and the centrally planned economies of Eastern Europe (Group D) on the other hand. At the same time, Group D as well as China on its own confronted Group B. This approach was politically convenient but tended to result in the «polarization» of interests which often prevented a break-through in the negotiations on any major issue. At the same time, it resulted in time-consuming futile exchanges in which the main issues of concern to the Group of 77 have been side-tracked or relegated to a place of insignificance.

(d) Finally, an institutional and operational problem which has eroded confidence in UNCTAD, is the absence of an effective mechanism at the political level, for ensuring the implementation and or the follow-up on resolutions or decisions taken at UNCTAD sessions. A review of the resolutions adopted within UNCTAD since the first session seems to indicate the most resolutions addressed to member States have virtually not been implemented. No international mechanism exists for compelling or persuading sovereign States to comply with resolutions, especially those on which they have abstained or voted against.

38. On a more positive note, the African countries appreciate the fact that the UNCTAD secretariat, has since its incention, made considerable progress to strengthen its institutional and technical capabilities in assisting developing African countries in effectively dealing with trade and development issues. As a follow-up on UNCTAD decisions the secratariat on its own initiative, has been involved in many joint activities with the Economic Commission for Africa and other United Nations agencies and institutions in trade and development policy formulations through conducting research, studies, training and development of human resources in trade: and in fostering regional and subregional economic co-operation and in institution building, to name only a few. Therefore, resolutions addressed to UNCTAD secretariat of interest to Africa have been implemented and have assisted member States in dealing more effectively with international trade and development issues.

P A R T II

DEVELOPMENT FINANCE, RESOURCE FLOWS AND EXTERNAL DEBT

A. BACKGROUND

39. Africa's economic recovery, growth and development is precariously linked with the broader issues relating to development finance, resource flows and external debts of African countries. As is stated elsewhere, the collapse in commodity prices considerably curtailed Africa's foreign exchange earnings and in order to maintain even existing levels of economic growth, most African countries had to resort to heavy external borrowing. This was further aggravated by the uncertainty in the world monetary and financial markets as to the availability to Africa, on a more predicable basis, of development finance.

40. Several factors continue to cause serious concern in Africa. These are: (a) the collapse in commodity prices which has generated considerable uncertainty and disarray in African economies, (b) stagnation, and in some cases, the actual decline in the flow of official development assistance to Africa; (c) the continuing high interest rates in the major industrialized countries which have escalated the cost of borrowing, (d) the adoption of the regime of fluctuating exchange rates which makes it extremely hard for African countries to monitor or even control the impact of their own exchange rates on development; (e) monitoring external indebtedness and the related problems of debt servicing and (f) the outflow of capital and other resources from Africa through principally the activities of transnational corporations and their banking and financial institutions. Some of these issues will briefly be analysed in this part of our submission as a basis for proposals for international action. But before doing so, a brief review of recent developments in international and financial relations would facilitate the analysis.

B. RECENT DEVELOPMENTS IN INTERNATIONAL MONETARY AND FINANCIAL RELATIONS

41. Since 1980, there has been an unprecedented application of economic policy in western industrialized countries for controlling inflation. This has been accompanied by measures to regulate output, world trade and employment. The anti-inflation policies made the application of traditional policy options, involving fiscal and monetary tools, difficult for policy-makers in both developed and developing countries. This required a policy combination involving fiscal measures to reduce government and expenditures and monetary restrain to lower growth in money supply. However, this was not possible in most developing countries because many of the fiscal programmes had strong social and political implications.

42. The reliance on restrictive monetary policy by industrial countries and the economic consequences for the global economy brought into sharp focus a fundamental and disturbing asymmetry in their trade relations with the developing countries. It should be stressed that the asymmetry constrained the ability to implement desired endogenous policy options which, apart from affecting the macrovariables on which they are targeted, also transmit adverse exogenous impacts on developing countries. In Africa, the repercussions have been widespread although they have varied depending on the degree of linkage to the global economic system and the level of development. No country has escaped the consequences of the anti-inflation policies of the industrial countries.

43. One of the major developments in the international financial system has been the tight monetary policy introduced by the United States in the early 1980s. Because of the important position of the United States dollar in the world economic system, its policies influenced the level of interest rates in the international financial markets and the exchange rates of the major traded currencies. African countries were seriously affected by adverse developments in the international economic environment starting with the oil shocks of 1970s to which should be added the economic recession in industrial countries during the early 1980's. As a result, the economies of African countries were fundamentally weakened, further aggravating external payments imbalances and an intensification of inflationary pressures.

44. The sharp increase in oil prices resulted in a marked rise in the import bills of the oil-importing African countries, thus significantly affecting their development prospects. While the African oil-exporters benefited from the oil price increases, they have since 1985 been adversely affected by the collapse in the price of oil. The recession in the industrial countries of the early 1980s affected both oil and non oil-exporting African countries by weakening the demand for African exports which consist of mainly primary commodities including oil itself. The result of weakened demand was a sizeable decline in the prices of primary commodities which, in turn, reduced the level of foreign exchange earnings.

45. Another development of significance was the unprecedented rise in international interest rates during the period 1979-1983 which as was stated earlier, increased the cost of external finance. The increase in interest rates aggravated the already burdensome external debt service payments. In Africa, the high interest rates affected especially those countries with large debts owed to private creditors and contracted on variable interest rates. During the period 1974-1984 debt service payments for non-oil African countries rose elevenfold against a background of first, declining growth rate of export earnings and second, actual decrease in the volume of export earnings during the later years.

46. Fluctuations in the exchange rates of the major world currencies represented another major development which adversely affected the economic and social situation in African countries. After a tendency towards appreciation of real effective exchange rates over much of the previous decade, there was a depreciation of about 5.5 per cent in 1983 using a gross domestic product weighted average of national indices. During 1982-1983 and 1983-1984, the real effective exchange rates of the non-oil developing countries, calculated as an average across countries weighted by GDP had a cumulative depreciation of about 13% and 15% respectively. However, since December 1985, the exchange rates of the major world currencies particularly those of the big five have been controlled by deliberate policy of intervention. 3/ The authorities decided that the value of the US dollar should be reduced against the Japanese Yen, pound sterling, French franc and Deutsche mark. As a result of that decision, the US dollar has depreciated by as much as 25 per cent against the other major world currencies. This in turn resulted in the misalignment of the exchange rates of many African countries pegged to these world currencies.

47 The adverse impact of these factors on the African economies was significant. This was compounded by inadequate domestic resource management and structural policies which also contributed to the worsening in the balance-of-payments position. These policies were reflected in large and growing fiscal deficits and rapid expansion of domestic credit in many African countries. Therefore faced with large and mounting domestic and external imbalances, most African countries looked up to the developed countries as sources of finance. However, contrary to the developments in the 1970s and early 1980s when most African countries could resort to their foreign reserve balances most of which were relatively healthy, they now had to depend on ODA or borrowing from the market at conditions they could not afford.

3/ United States, Japan, United Kingdom, West Germany and France.

C. STAGNATION IN DEVELOPMENT FINANCE AND RESOURCE FLOWS TO AFRICA

(a) Issues of Major Concern to Africa

48. The most critical concern of African countries is that development finance is not readily available to sustain even modest levels of growth. In fact, the overall flows have taken a negative turn. For instance, the net medium and long-term flows on concessional terms to developing countries only grew by 0.77 per cent between 1981 and 1985. In fact, DAC flows actually declined by -0.03 per cent. There has therefore been an increase in outflow of financial resources from Africa to the developed countries. It is important to stress that despite agreements reached at the UNCTAD VI to improve the resource situation of developing countries, the contrary has actually been the case. More specifically, for sub-sharan Africa, the net flows of resources for the period 1981-1986 declined from US$12.36 billion 9/ to US$ 9.06 billion, indicating a negative flow of some 6.36 per cent.

49. We are also concerned that the international financial environment has been so harsh on African economies that any adjustment programmes designed through shifts in the policy and mixing domestic monetary and fiscal policies have been circumscribed by international financial system which sets the operational limits of individual country policies. Furthermore, recent developments in the international financial system such as exchange rate misalignments, the volatility in foreign exchange markets and the diminishing capacity of multilateral financial institutions to provide external payments support and programme lending on suitable conditions, have aggravated the liquidity problems of African countries. For example, the period 1979-1981 was marked by a deceleration of long-term capital to Africa and an acceleration of short-term debt including export credits. This situation has been maintained throughout the period 1982-1986.

50. Another matter of greater concern to Africa is the fall in lending from official sources on both concessional and non-concessional terms during the period 1980-1983. The decline was 28 per cent for the 12 major borrowers and was 33 per cent for low-income African countries, the most dependent on official concessional finance. Commitments by multilateral agencies expanded by 4 per cent between 1980 and 1983 but commitments to borrowers in low-income Africa dropped by 20 per cent in 1981 after the exhaustion of the IMF Trust Fund. The

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9/ See UNCTAD, Background Statistical Note, (UNCTAD/ST/MFD/2) of 23 October 1986.

sharpest drop was by bilateral agencies which cut down their commitments to Africa by more than 50 per cent. The nominal interest rates in the international capital market declined slightly in 1982 but the benefits of lower interest rates were [illegible] offset by reductions in the average grace period and maturity.

51. In June 1985, the United States prime rates fell below the level of 10 per cent for the first time in 7 years. This was a healthy development given that one of the most striking features of external debt servicing difficulties of developing countries, in recent years, has been high interest payments on existing debt stock. If interest rates remain at a lower level, the cost of external financing particularly from financial markets would ease the debt servicing burden for African countries that have borrowed heavily on floating interest rates.

(b) Recent developments

52. Two developments, however, brought hope for Africa. The first is that the perilous position of debt-troubled African countries had been acknowledged by the international community. The London Summit (1984), the Bonn Summit (1985) Tokyo Summit (May 1986) of the Leaders of seven major industrial nations 10/ and Spring meetings of the Interim Committee of the International Monetary Fund and Development Committee of the World Bank and the International Monetary Fund have all discussed the financial problems faced by African countries including measures for alleviating the situation. We hope that these verbal assertions would be followed up by concrete action.

53. Another hopeful development on financing flows in recent years was the World Bank's Joint Programme of Action for Sub-Saharan Africa which originally proposed a US$2 billion. We in Africa, deeply appreciate the initiatives taken by the World Bank on this issue. This proposal aims at mobilizing funds from bilateral donors. Such funds will, however, be made available only to governments of the sub-Saharan African countries pursuing acceptable adjustment programmes and policy reforms. There are however, concerns that policy requirements will follow closely those outlined by the IMF and that donor leverage will be increased significantly. Also in a World Bank paper which outlined the possible impact of the Joint Programme on specific Sub-Saharan African countries, there was a bias on selecting the countries for the four case studies. Countries which agreed to implement IMF structural adjustment programmes stood in a more favourable position than those which refused to do so. This suggested that World Bank balance-of-payments funding under the Joint Programme would continue to be tied to IMF adjustment programmes in spite of their shortcomings.

10/ These nations are USA, West Germany, France, UK, Japan Canada and Italy.

54. It is also encouraging for Africa to note that the Interim-Committee and the Development Committee at their annual Spring meetings in 1985 and 1986, acknowledged and welcomed the efforts of developing countries in dealing with debt servicing problems within the framework of overall resource management policy. There was a form of consensus that in order to resolve debt-servicing problems of African countries, it requires co-ordinated efforts with the international community providing generous and long-term concessional support. Adjustment efforts by African countries needed to be supported by creditors through adequate flows of new lending on realistic terms and by a readiness to restructure past maturities of loans extended by private and official creditors.

55. We must also acknowledge that even the International Monetary Fund (IMF) has recognized the fact that African countries, particularly Sub-Saharan African countries, were confronted by severe financial difficulties. This acknowledgement is borne out by a change in the nature and content of the adjustment programmes of the IMF, particularly when it was noted that.... the balance of payments problems of these countries had become intractable, and were likely to be of longer duration than initially thought. 11/ In fact, during the period 1980-1984, no less than twenty six (26) sub-Saharan African countries successfully negotiated stand-by arrangements and extended fund facilities with the International Monetary Fund. That there has been a reduction in access of African countries is borne out by the fact that during 1980-1981, twenty one (21) countries in Sub-Saharan Africa established financial programmes with the fund. The amounts agreed under these arrangements were US$1.5 billion in 1980 and US$3.9 billion in 1981. However, as the debt crisis became more severe, access to Fund resources was reduced further. By 1983, many Sub-Saharan African countries were said to have become "prolonged users" of Fund resources i.e. having continuously used the resources for over 3-5 years. 12/ Being prolonged users, these countries became ineligible for further resources as they would encounter difficulties when repurchases (i.e. repayments to the Fund) commenced.

11/ See Rattan J. Bhatia, "Adjustment Efforts in Sub-Saharan Africa, 1980-84, in Finance and Development," September 1985, Vol.22 No. 3, IMF.

12/ See Rattan J. Bhatia, "Adjustment Efforts in Sub-Saharan Africa, 1980-84" in Finance and Development, September 1985, Vol. 22, No. 3, pp. 19-22.

D. AFRICA'S EXTERNAL DEBT CRISIS

56. A cardinal factor which we wish to place before the international community is that since the early 1970s, a growing number of African countries have experienced serious debt service problems (principal payments plus interest and other charges) which quickly escalated into a debt crisis around 1980. Three major critical issues cause great concern among the African countries with regard to the external debt. 13/

(a) individual as well as the combined external debts of African countries have increased dramatically in recent years having escalated from US$150 billion in 1983 to about US$200 billion in 1986. Our estimates, unlike those of the World Bank, include short-term debts (with maturities of less than one year), obligations to the World Bank and IMF, debts payable in local currencies and loans to private individuals and institutions. The size of the debt itself is not a negative factor in development. What causes concern is the increasing debt service problems (repayment of principal plus interest rates and any other charges). Moreover, there has been increased 'privatization' of external debts to the extent that the rates of commercial borrowing from private lenders has dramatically increased during the past five years composed with concessional loans from multilateral institutions.

(b) because of a combination of a number of factors, many of the loans contracted in the past do not actually generate foreign exchange to cover the debt service obligation of each loan. As a result, resources are sometimes shifted away from one important development project to meet debt servicing in other projects.

13/ This portion is derived from a paper by ECA on The Management of Africa's External Debt (E/ECA/CM.11/65), 2 April 1985.

(c) for some time in the past, the major lenders had deliberately left Africaout of the debt renegotiation mechanism established for Latin America. The international community still continue to relegate low priority to Africa's external debt crisis. This is partly because the total external debt of all developing African countries is currently below 20 per cent of the total global debt. What the international community seems to ignore is that taking into account the economic size of most African countries, the drought and desertification problems and the current economic crisis generally, many of them are faced with a serious debt service crisis which deserves more attention than has hitherto been the case.

57. The point which we wish to underscore is that the emergence of external payments problems for a number of African countries reduced sharply and rapidly their access to international financial markets. The onset of external payments difficulties in the African region is shown by the sharp rise in the number of African countries resorting to rescheduling their debts and the amounts rescheduled. During the period 1980-1984 there were over 40 reschedulings involving more than US$12 billion. Whereas in 1980 there were 4 reschedulings (two through the Paris Club for US$72 million and two through commercial banks for US$471 million) involving US$543 million, the following year the amount rescheduled increased to US$1794 million representing 7 reschedulings through the Paris Club for US$1079 million and two through commercial banks for US$715 million. In 1982 there was a reduction in both the number of reschedulings (5) and the amounts involved (US$335 million).

58. The external payments difficulties for African countries intensified in 1983 as evidenced by the sharp rise in the number of reschedulings to 14 involving an estimated amount of US$6,978 million of which US$4,361 million was rescheduled through the Paris Club (10 reschedulings) and US$2,617 million representing 4 reschedulings by commercial banks. By 1984 there was 10 reschedulings of which 8 were through the Paris Club involving US$1,694 million and 10 through commercial banks involving US$1,239 million. The decline in the amounts rescheduled is due to the fact that debts eligible for rescheduling were also declining in number.

(a) Causes for the African debt crisis

59. There are numerous factors which have led to the African debt crisis but for the purpose of this submission, we refer to recent reviews on this subject. In response to the debt crisis, the African Governments on their part through the Addis Ababa Declaration in 1984 and within the context of Africa's Priority Programme for Economic Recovery 1986-1990 in 1985 identified a number of causes for the debt crisis including some of the following 14/

14/ Organization of African Unity, Africa's Priority Programme for Economic Recovery 1986-1990, PAC, 1985.

(i) The collapse in the international prices of the commodities of major export interest to African countries which resulted in drastic decline in the export earnings and hence foreign exchange reserves.

(ii) The high interest rates in the major lending countries coupled with violent fluctuations in the exchange rates of the world major currencies which increased the cost of borrowing by African countries during the early 1980s thereby worsening the debt servicing crisis

(iii) The sharp decline in the flow of capital and development resources to Africa on concessional terms especially from Official Development Assistance (ODA) of the Organization for Economic Co-operation and Development (OECD) which forced many African countries to resort to borrowing from private creditors at high interest rates

(iv) The loss of huge amounts of resources through the activities of transnational corporations and their transnational banks which manipulated commodity prices e.g. transfer pricing, deliberately depressing world prices of primary commodities through the operations of international commodity exchanges including the London Metal Exchange.

(v) The persistent and severe drought, desertification and other natural calamities which made it difficult for many countries to increase their agricultural production not only for exports but also for domestic consumption thereby reducing their export earning capacity while at the same time increasing their food import bills

(vi) At the domestic level the debt problem was exacerbated by factors such as poor pricing policies weaknesses in external debt management policies in terms of the absence of effective centralized control over the authorization of external borrowing by both the public and private sectors and the absence of appropriate procedures for the selection of projects to be financed by external borrowing.

(vii) The inadequacy of monetary and fiscal policies in encouraging development resources to be mobilized and utilized in productive investment activities.

(b) The structure of Africa's debts

60. According to World Bank Debt tables, the public and publicly guaranteed outstanding debts, including the undisbursed portion for 46 African countries amounted to US$32.3 billion in 1974; US$52.2 billion in 1976; US$89.7 billion in 1978; US$ 108.5 billion in 1980; US$126.9 billion in 1982; US$137.2 billion in 1983; and US$133.4 billion in 1984. These figures grossly underestimate the magnitude of Africa's total indebtedness particularly during the period 1978-1982 when there was a rapid build-up of short-term liabilities. The Banker (August 1983) estimated that the proportion of short-term debt in total international indebtedness of developing countries rose from 19 per cent in 1978 to 28 per cent in 1982. If short-term debts of African countries are included, Africa's external debts in 1983 would increase by 20 to 28 per cent to between US$164 billion and US$176.6 billion respectively. Furthermore, if repurchases from the International Monetary Fund, debts repayable in local currencies, short-term debts including export credits debts not revealed to the World Bank's Debtor, Reporting System (DRS) and accumulated arrears are included, Africa's external debts should have exceeded US$200 billion at the end of 1984 which was stated earlier in this section.

61. The external debt situation of African countries has certain features that are cause for concern. In recent years, there has been a high share of debt to private financial institutions. The ratio of external debt to gross domestic product (GDP) and the ratio of external debt to exports of goods and services have been rising faster in Africa than in any other region. Substantial arrears on commercial payments and debt service payments have been allowed to accumulate rapidly in recent years. A large number of African countries have sought and are still seeking rescheduling of debt service obligations with both commercial banks and with official creditors. As a result of debt service payments, sooner or later, it will not be possible for some African countries to reschedule their debt service obligations since there is some relationship between the amount of debt service that is eligible for rescheduling as repayments to multilateral development institutions rise along with repayments of previously rescheduled debt service obligations.

62. The debt servicing crisis of African countries can easily be demonstrated by the following analysis. First, annual disbursements to African countries peaked in 1982 at US$16.3 billion before falling to US$14.6 billion in 1984.15/ reflecting a decline in the total flows of resources to African countries. This picture becomes clearer if one compares disbursements to Africa and principal repayments during the

15/ See World Bank, World Debt Tables, 1985-86 Edition, Washington D.C.

period 1978-1984. Out of a total of US$1,8359.4 million disbursements only US$3,387.9 million left Africa as amortization (i.e. principal repayments) leaving a net inflow of US$1,2971.5 million in 1978. However, by 1984 out of US$10,161.5 million in amortization leaving only US$4,430 million as net inflows. If interest payments are deducted from the net inflows of 1984, one obtains a net outflow from Africa of US$1,333.5 million.

63. Secondly, the severity of debt servicing difficulties can be appreciated from an analysis of the importance of some of the major economic aggregates relative to the magnitude of the debt stock, amortization and interest payments. For example, gross external liabilities of 46 African countries expressed as a percentage of the total of their exports of goods and services was 243.3 in 1984. Gross external liabilities represent the sum of long-term debt plus the use of IMF credit and short-term debt that has been disbursed. This ratio (i.e. 243.3%) means that for African countries to pay-off the 1984 debt stock they would have to increase the value of their export by 243.3 per cent. On the other hand, the total debt service (i.e. amortization plus interest payments as a percentage of total exports was estimated at about 23.6 per cent in 1984. This debt ratio implies that out of every US dollar generated from exports as foreign exchange) will be left for financing imports and development.

E. PROPOSALS FOR DEALING WITH AFRICA'S MONETARY AND FINANCIAL PROBLEMS

(a) External Debt Relief Programmes

(i) Measures to be taken by the African countries

64. From the preceding analysis, we propose specific measures to be adopted in dealing with Africa's external debt crisis. To this end we refer to the Addis Ababa Declaration on Africa's External Indebtedness and Africa's Priority Programme for Economic Recovery 1986-1990 both of which stipulated specific measures to be undertaken at the national, subregional, regional and international levels. We realize that the basis for international response is the action by the African countries themselves. Therefore, at the national level, our governments have adopted and implemented or are in the process of implementing remedial measures which would curb liberal and excessive borrowing. In this connection, each African government is considering the establishment, where this does not already exist, of a machinery for defining the purpose of loans sought, determining how much to borrow and from what sources as well as assessing the debt servicing capacity of the country if additional debts are to be contracted. To supplement debt management policies, many governments have adopted or are seriously considering the adoption of new and more vigorous domestic resources mobilization policies and appropriate resource/allocation policies.

65. At the subregional level, African governments are exploring ways to exchange information, bilaterally or through multilateral bodies, on rescheduling terms while African investors both public and private are to be encouraged through appropriate incentives, including inter alia bilateral and multilateral agreements, to invest their resources in other African countries. African institutions, such as the African Development Bank Group, the Arab Bank for Economic Development in Africa (BADEA) and subregional development banks, continue to re-examine their lending policies with a view to ensuring their effectiveness in alleviating the present external debt servicing crisis. At the international level the Arab and African countries are seeking ways towards enhancing their co-operation in compliance with the Cairo Declaration of 1977 and subsequent decisions and recommendations as part of a concerted development strategy.

(ii) Measures to be implemented by the industrialized countries

66. We wish to stress that the basis for the international community in dealing with Africa's debt issue lies in the continued improvement of the external environment and a strong economic adjustment effort sufficient enough to allow African States to service their debt while establishing the basis of sustainable economic growth. In these cases the interantional community should show its determination to assist African countries in their efforts to deal with their financial constraints. UNCTAD is therefore urged to speedily implement General Assembly resolution adopted during the forty first session which called for "strengthened international economic co-operation aimed at resolving external debt problems of developing countries". Therefore, at the international level, we reiterate the call made in the Addis Ababa Declaration and Africa's Priority Programme for Economic Recovery 1986-1990 for a set of measures to redress the adverse impact of external indebtedness on development prospects and these include the following:

- Full implementation on a non-discriminatory basis by industrialized countries of UNCTAD resolution 165 (S-IX) concerning retroactive adjustment of the public external debt, and total or partial cancellation of external debts of developing African countries, in particular, the least developed countries and especially those most seriously affected by natural calamities especially the drought;

- Fuller implementation of the internationally agreed features for debt reorganization contained in resolution 222 (XXI) and endorsed by Trade and Development Board in March 1984 would make a substantial contribution towards improving the process of debt rescheduling. In this connection, the period for consolidating debt service due should be at least five years and repayment period for the consolidated amounts should not be less than 10 years (including substantial grace periods).

The process of debt reorganization should have a longer perspective and be designed to provide sufficient time over which structural adjustment measures can be implemented. The debt rescheduling should also be designed in such a way as to improve the credit worthiness of the African countries.

- A moratorium of at least 3 to 5 years on debt servicing of both public and private lenders including the conversion of a substantial part of the debt service obligations of African countries into grants;

- The debt services should not be allowed to exceed a reasonable percentage of the export earnings and the Gross National Product (GNP) of African countries. This would enable the countries to obtain the much needed financing for structural adjustment programmes thereby improving their credit-worthiness.

- The introduction of fairer and more far-reaching multilateral arrangements for reorganizing African countries' debt-servicing obligations and

- An appeal to the industrialized countries and international finance institutions to increase the flow of concessional resources to African countries.

67. We must stress that although hitherto many African countries had managed to meet their debt service obligations, the more frequent renegotiations or reschedulings of debt are a barometer of inherent and deep-rooted structural problems in the African economies. If the world community does not come to Africa's rescure, it is possible that massive defaults on debt servicing may occur in the near future. If that should happen, not only would resource flows to Africa be drastically reduced as a retaliatory-cum-precautionary measure, but the terms of borrowing would also be stiffer. Hence, we underscore the need for an international recognition of Africa's debt situation with a view to facilitating the formulation of medium and long-term measures that would assist countries in dealing with the external debt crisis.

(b) Improving the quality andmodality of external assistance and co-operation

68. The Special session of the General Assembly through the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, had already agreed on measures to improve the quality and modality of resource flows to Africa. What now remains is for UNCTAD session to agree on steps to implement these measures within its field of competence. While it is recognised that each

bilateral or multilateral donor as well as recipient has its own rules and procedures, there are some general areas in which changes can be usefully made. For an effective support of Africa's recovery efforts, it has been agreed that the quality and modality of external assistance and co-operation need to be improved along the following lines:

(i) Greater emphasis on programme support in the priority areas of the recipient African countries, with a view to giving an indication of medium term support;

(ii) Evolution of procurement policies and administrative procedures which would improve delivery of production inputs;

(iii) Speedier disbursement of funds;

(iv) Increase the concessionality, particularly the grant element of development assistance to African countries, with the purpose of improving the quality of aid to these countries;

(v) In planning and implementing programmes of assistance, special consideration shall be given to the indigenous competence, expertise, experience, local conditions, particularly local techniques and equipment as well as the training of qualified national personnel;

(vi) Evolve more effective and efficient co-ordination methods in order to ensure a greater impact of aid policies;

(vii) Improve the effectiveness of technical assistance and make it more responsive to the needs and priorities of the African countries;

(viii) Donor countries and agencies should consider, as appropriate, measures to assist African countries, in meeting recurrent and local costs of programmes and projects;

(ix) Donor countries, international institutions and recipients should take into account the recurrent and local costs of new programmes and projects to ensure their viability.

(c) Specific measures in Support of Africa's Policy Reforms

69. The General Assembly recognised that there is need for extensive international support for the priorities and policies that Africa has identified as necessary and on which many African countries have already embarked. Furthermore, African countries need assistance to enable them to achieve smoother structure adjustment and policy reforms. In this regard, the international community, particularly the donor countries, keeping in mind the interests of all developing countries, agreed on the importance of increasing official development assistance to Africa and improvement in its quality and effectiveness. To this end, they agree to the following which UNCTAD VII is urged to fully support and implement:

(i) Placing greater emphasis on non-project aid, including balance-of-payments support, to African countries during the period 1986-1990;

(ii) Evolving and policies based on technical considerations and specific aid requirements of recipient countries;

(iii) Enabling multilateral development institutions to increase their concessional assistance to African countries;

(iv) In the case of countries concerned, work towards the rapid implementation of the International Monetary Fund Structural Adjustment Facility which provides longer term concessional resources in support of adjustment efforts, including overall development objectives at the national level;

(v) Urge the speedy eighth replenishment of the International Development Association and the fifth African Development Fund at levels which should take into account the need to fully support African recovery and development;

(vi) Strive to ensure that no individual bilateral donor, during the period 1986-1990, becomes a net recipient of official capital flows from African countries that undertake adjustment programmes;

(vii) Increase support, whenever possible, to the International Fund for Agricultural Development Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification;

(viii) Giving special attention to financial and technical assistance requirements of countries affected by drought and desertification and in this context utilize the existing subregional organizations such as the Permanent Interstate Committee for Drought Control in the Sahel, the Intergovernmental Authority for Drought and Development and the Southern African Development Co-ordination Conference;

(ix) Special efforts need also be made to increase resource flows to the least developed countries with a view to enabling them to achieve the objectives of their country programmes within the framework of the Substantial New Programme of Action for the 1980s for the least Developed Countries 16/ and also to allow the African countries to solve the critical problems arising from negative or insufficient flows of resources;

(x) Firmly invite those countries that have not done so to give priority consideration to the implementation of Trade and Development Board resolution 165 (S-IX) of 11 March 1978 17/ and note with satisfaction that a number of donor countries have responded favourably to that resolution.

16/ Report of the United Nations Conference on the Least Developed Countries, Paris, 1-14 September 1981 (United Nations Publication, Sales No. E.82.I.8), part one, sect. A.

17/ Official Records of the General Assembly, Thirty-third Session, Supplement No. 15 (A/33/15), Vol. I, part two, annex I.

P A R T III

COMMODITY ISSUES

A. BACKGROUND

70. Primary commodities have been the backbone of many African economies and will continue to be so far a long time to come. We, in Africa, have since the inception of UNCTAD, persistently presented our case to the international community to devise ways for fair and remunerative prices of primary commodities of major export interest to African countries. The importance of primary commodities to Africa's recovery, growth and development needs no further emphasis since issues of economic growth and development are inextricably intertwined with the commodity sector. Commodity trade determines Africa's development targets, the borrowing capacity and the capacity to service external debts. As was experienced in the early 1980's the collapse in the commodity prices was largely responsible for plunging many African economies into problems of external debt servicing.

71. Commodity production and trade in Africa is a major employment sector and principal source of foreign exchange earnings. In most African countries, four out of every five of the working labour force is engaged in the commodity sector. Commodity production accounts for between 30 and 60 per cent of GDP. A majority of African countries depend on only one or two and at most, three commodities for their foreign exchange earnings. Moreover, other sectors of the African economies like those of transport and trade including processing depend on primary commodities of agriculture and minerals. When all these factors are taken into account, it would be appreciated why African countries place great importance to the success of international commodity negotiations and agreements.

72. It is therefore a matter of great concern to African countries that no satisfactory mechanisms have been found to adequately compensate the commodity producer countries for drastic falls in export revenues which seriously disrupt their development effort. For instance, at the meeting of the Intergovernmental Group of Experts on the Compensatory Financing of Export Earning Shortfalls held in Geneva in July 1986, Africa's concern was voiced when the group noted that «(1) export earnings instability, when high and sustained over a long period, had adverse effects on commodity-producing sectors of the developing economies and the world economy as a whole (2) while both demand and supply factors contributed to such instability, which were caused by factors operating within an individual commodity sector tended to be more important at the country level and so, to deal effectively with commodity instability, it was necessary to address policy measures to the causes of commodity-specific supply instability and not just its effects; (3) present international programmes do not deal effectively with the causes of commodity supply instability; and (4) a new compensatory facility is needed which would operate, in a manner different from the IMF-CFF, by linking the uses of compensatory financing to the needs of supply adjustment in order to reduce supply instability in specific commodity sectors consonant with national and international policies and arrangements» 18/

18/ See UNCTAD, Report of the Intergovernmental Group of Experts on the Compensatory Financing of Export Earnings Shortfalls (TD/B/1112-TD/B/AC.43/4).

73. Therefore, Africa is pressing for a new look at this issue in order to agree on urgent and effective measures to solve this problem. We firmly believe that we cannot engender economic recover and growth within the framework on a sluggish and uncertain commodity market. The purpose of this section therefore is to propose new measures to be agreed by the international community to deal with the commodity issue.

B. SITUATION IN COMMODITY TRADE

(a) Commodity exports

74. Africa's concern over the current trends of commodity trade requires an appreciation of a number of interrelated activities. Principally, the African economies are very vulnerable to the commodity composition, production and processing, export and imports, elements of supply and demand as well as fluctuations in prices. According to available statistics, the total world commodity exports in 1984 were estimated at US$710 billion and slightly higher than the amount in 1983. In 1985, the production of petroleum considerably exceeded its previous level thereby contributory to the region's increased export total of US$60,941 million.

75. The share of Africa's commodities in total exports in the period 1980 and 1985 was as follows: food (over 54 per cent), minerals and metals (30.4 per cent) and agricultural raw materials (15.5 per cent). Africa's performance during this period, when compared to that of other developing regions, is proportionately higher at a little over 26 per cent in respect of tropical beverages (as against 16.4 per cent by Latin America and 6.5 per cent by Asia). The other regions on the other hand, had a proportionately higher export percentage than Africa in terms of food (Latin America at about 72 per cent and Asia at about 58.6 per cent). Total Africa's import of primary commodities including fuels between 1974 and 1984 as a percentage of world import values rose from about 2.6 per cent to about 3.1 per cent. When fuels are excluded the percentage shows a rise from 3.5 per cent to 4.7 per cent respectively.

76. The higher share of Africa in commodity trade poses serious problems of development, this implies the low level of processing and manufacturing. It also implies the fact that Africa's commodity trade continues to be governed by general world trends, in particular, those in developed industrialized countries who are the main market outlets for African exports. There are several factors explaining the commodity trends in Africa. One of these is the influence and momentum of technology which has resulted in shifts in international competitiveness both in the short and long run of African commodities with synthetics and substitutes. There is also the question of certain trade policies pursued by Africa's principal trading partners which harm Africa's exports. For instance, some developed countries subsidize their agriculture e.g. the Common Agricultural Policy in EEC. In fact, "the bulk of trade restrictions currently in place, including market sharing agreements, are directed against

major traditional products in international trade (leading exaples being agricultural products, textiles, steel and automobiles)» 19/

77. At the African level, the poor performance of the agriculture sector in Africa combined with slaggish world demand for primary commodities seriously curtailed the region's capacity to import. Prompted by the need to conserve foreign exchange, many African governments were compelled to restrict imports thereby curtailing development. For a majority African countries importing capital goods and other necessary inputs, this restriction on imports resulted in a crisis of under-utilization of existing capacities in both the agriculture and industry subsectors supporting agriculture. When export capacity was curtailed there was a drop in foreign exchange earnings.

(b) Price trends

78. An area of considerable difficulty for African countries relates to developments in commodity prices. Our analysis shows that the volatility of commodity prices can be attributed to supply and demand conditions in developed markets. On the demand side, trade cycles and changes in stock piling patterns in relation to market expectations tends to cause fluctuations in the demand while supply often lags behind. Therefore, major importing economies in the industrialized countries were able to depress derand periodically for most commodities resulting in downward movements of commodity prices during the 1980s. It has been argued that this was associated mainly wich the world recession which caused chronic imbalances between demand and supply conditions especially of primary agricultural commodities, minerals and other industrial raw materials from Africa. Consequently an «oversupply» within an already depressed market merely accentuated the decline in prices. On the supply side, the influence of competition between natural raw materials and synthetic substitutes continued to be fierce. For instance, petroleum-based synthestics for natural rubber, maize sweeteners for cane sugar or plastics for many material fibers. In addition shifts in long-term uses of certain commodities resulting from shifts in consumer preferences, made the world commodity market less attractive for African producers. 20/

79. As a result of the combination of these and related factors, the price differentials were in favour of domestic producers in the European Economic Community (EEC)especially under its common Agricultural Policy (CAP). The EEC has gradually turned from a net importer into a net exporter of agricultural commodities such as sugar. To illustrate this point further, while the free international market price of sugar had dropped from 40 cents per pound in 1980 to a mere 2.8 cents per pound in 1985, the ratio of domestic to free market prices actually rose from 1 to 5 in the EEC and from 1 to 7 in the United States of America. 21/

19/ GATT, International Trade 1984/85, Geneva, 1985, P.17.

20/ See OECD, «Commodity prices» Interlink working paper No. 27 November 1985.

21/ IMF, «Recent market developments and outlook for primary commodities», DM/85/55,12 September 1985 P.31.

To these factors must be added the aspects of «managed trade» by which the imposition of discriminatory restrictions creates surplus conditions in African countries thereby depressing commodity prices.

80. The prices of all the main groups of commodities followed the same broad downward pattern as the global index indicates particularly as a result of the weakness of demand. For instance the prices of major commodities such as coffee, cocoa, cotton, sugar, tea, which together account for about 70 per cent of total Africa's agricultural exports had been steadily declining for some time with minor upward thrusts periodically. With this decline, Africa's share in the world commodity trade dropped from 9 per cent in 1966 to 6.6 per cent in 1975 and to about 4.9 per cent in both 1983. 22/

81. Similarly, trends for a select number of principal non-fuel primary commodities of the countries of sub-Saharan Africa for the period 1981 to mid 1986, indicate that prices of these agricultural exports have been depressed since 1980. For instance the price index of cotton, a major export commodity for many African countries, declined from 90 per cent in 1981 to 77 per cent in 1982 before rising to 86 per cent in 1984 and then fall again to 64 per cent in 1985.23/ In 1981, the index stood at 19 per cent below the level they were in 1980 before worsening in 1982 to 22 per cent and to 26 per cent in 1984 and 1985.

C. SOME SHORTCOMINGS IN INTERNATIONAL MEASURES FOR PRIMARY COMMODITIES

82. In Part I, we demonstrated the reluctance of the industrialized countries (both market and centrally planned economies) to institute effective measures to deal with the commodity issue. Partly as a result of this, the trends indicated in the preceding section have emerged. Behind this reluctance is the fundamental belief of the industrialized nations on the «trickle-down» theory. They held the belief that economic buoyance in the developed industrialized countries would benefit developing countries through such factors as increased demand for commodities. However, experience does not support this. On the contrary, the recovery of the Western developed economy countries, especially the growth of GDP in the OECD countries in 1984 of about 4.5 per cent failed to have any significant influence on price increases of commodities or on demand as has been demonstrated earlier.

83. We are particularly concerned that numerous attempts to stimulate growth through trade in commodities have resulted in short-term temporary gains for Africa largely because of the «piecemeal» characteristic of their application. International commodity arrangmenets are among the examples which reflect a piecemeal approach to commodity problems. The sombres of ICA's is also quite limited considering the range of commodities covered in commodity trade. To date, only six commodity agreements have been negotiated throughout the entire

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22/ United Nations World Economic Survey, New York, 1986, P.146

23/ UN Monthly Commodity Price Bulletin, Vol. VI, No.7 July 1986.

post-war period. The fact that consumer countries are becoming less and less committed to price supporting measures and that there are not many possibilities available for trade-offs between consumers and producers of primary commodities has also exacerbated the problem of finding lasting solutions.

84. The Common Fund for commodities has been one of the major preoccupations of UNCTAD. It was originally conceived as the main vehicle to assure support and stability of commodity prices».24/ The difficulty for African countries is that up to now the Common Fund is still in the process of ratification. For the Common Fund to become operational depends on ratification by either the United States of America on the one hand, or the Socialist countries of Eastern Europe led by the Union of Soviet Socialist Republics (USSR) on the other than. Both groups of countries so far show no signs of moving towards its ratification.

85. Another major failure of international action is the inability to maintain high enough prices for commodities. As was stated earlier, the commodity prices are too low to sustain growth in African countries and consumer attitudes are too insular to give much hope for better prospects in the near future. Moreover, violent fluctuations in commodity prices have been a characteristic feature of the world market and has negatively affected the efforts of African countries to implement th eir recovery and growth programmes. In fact, structural adjustment and policy reforms are virtually impossible to attain in an environment of uncertain commodity situation. Therefore, the drastic changes in the pattern of primary commodity prices that prevail in the 1980s relative to 1970s suggest a new approach to improve the general environment that influences the behavious of primary commodity markets. Some of the new measures are proposed in the next section

D. PROPOSALS FOR IMPLEMENTING ARRANGEMENTS ON COMMODITY ISSUES

86. In the previous section we have indicated that the existing conceptual framework for international commodity arrangements is not satisfactory to African countries largely because it is biased only in favour of the industrialized consumer countries. Consequently, no effective cost/profit sharing arrangement is possible unless the fundamental conceptual framework for international commodity agreements is reviewed and a new basis agreed upon between producing and consuming nations. In this context we wish to underscore that agriculture has been singled out as the top priority sector that will engender economic recovery, growth and development of the African countries for the period 1986-1990. 25/

87. We wish to stress that the process of revitalizing commodity trade should be objective of a new framework of relationship within the international community. It should aim at improving development prospects of the third world countries. The impending gravity of the global crisis, as manifested through international

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24/ Dragoslav Avramovic, «Specific Production and Trade Features of Primary Commodities», Primary Commodities: Challenge to Co-operation among Developing Countries, Research Centre for Co-operation with Developing countries, Ljubljana, Yugoslavia, 1986, P. 31.

25/ See OAU, Africa's Priorty Programme for Economic Recovery, 1986-1990 adopted by the Heads of State and Government of the Organization of African Unity in July 1985.

trade, can therefore be reversed only through genuine co-operation between commodity exporters and consumers. Irrespective of whatever action the developing countries might take individually or collectively to deal with commodity issues will not succeed without the co-operation of the developed countries since the latter are not only major consumers but also producers of a whole range of consumption and industrial goods required by developing countries.

(a) Measures to be implemented by the African countries

88. In the priority programme referred to in the preceding paragraph, the African countries have realized that concomitant with the concerted international action on commodity issues, they themselves must initiate action to improve the domestic production and distribution structures. To this end, the African governments have adopted inter-alia the following measures at the national level for the improvement and rehabilitation of agriculture:

(i) Incentive measures for increasing production and productivity such as place at the disposal of small farmers inputs such as seeds, fertilizers, hand tools and other implements at accessible prices for increased output, establishment of remunerative produce pricing policy, timely supply of agricultural inputs, efficient marketing system, adequate supply of consumer goods; improvement of the distribution of agricultural products. Strengthening of agricultural planning and statistical institutions through adequate funding.

(ii) Qualitative and quantitative production improvement in agricultural production and accord of high priority to food crop production especially by increasing the percentage of investment to this sector to between 20 and 25 per cent of total investment.

(iii) Animal production especially the development of small family livestock within the framework of mixed farming; improvement of the collection, conservation and marketing of dairy products improvement of livestock breeds and livestock infrastructure; improvement of veterinary services, campaigns for control and elimination of livestock disease with the participation of the population at large.

(iv) Research, technology and distribution systems including development of quick-maturing as well as drought, diseases and pest resistant crop varieties; agronomic research directed towards new species/varieties of crops adopted to different agro-ecological zones improvement of post-harvest technologies especially in the area of transport, storage processing, distribution and marketing.

(v) Support activities to agriculture by other sectors, especially the long-term support to development and agricultural growth will depend on the parallel development of industry. It is the same for other sectors such as energy, technology, commerce, transport and communications. In this regard, the following specific measures are proposed among others: the manufacture of simple, low-cost agricultural implements tailored to the needs of small farmers: the rehabilitation and development of existing transport infrastructure particularly feeder roads and other forms of communications; the promotion of intra-and inter-regional commerce in food and agricultural commodities; the establishment and/or improvement of preservation facilities and storage structure.

(vi) Mobilization of financial and other resources for training and human resources development; massive international assistance for research and development: facilitation of transfer of appropriate technology and the development of indigenous technology.

(vii) The need for a commitment and a strong national policy so as to adopt the appropriate legislative, statutory, financial, technical and social measures to face this scourge; improvement of the approach, strategy and planning in desertification control, and sustenance of the ecological capability of pasture by marketing and reinstallation of excess livestock in the new installation areas.

89. These are but a few of the measures to which the African governments have unequivocally committed themselves to implement over the next five years. When such measures are fully implemented, the agricultural commodity situation in Africa would have assumed a special significance. We therefore urge the international community to agree on some basic conditions on which a new set of international commodity agreements should be negotiated. These are listed in the next few paragraphs.

(b) Measures to be implemented by the international community

90. We appeal to the countries of the developed market and centrally planned economies within the framework of UNCTAD to reaffirm their support to two principal decisions as the basis for future commodity negotiations: «Africa's Priority Programme for Economic Recovery 1986-1990» and the «United Nations Programme of Action for African Economic Recovery and Development 1986-1990» adopted by the Special Session of the United Nations General Assembly on the Critical Economic Situation in Africa. In this context, there is need for urgent action to deal with the commodity crisis requiring financial resources so as to bring the various commodity agreements into operation early should be a matter of highest priority. The efforts by UNCTAD focusing attention on commodity problems in an integrated manner as represented by IPC and the Common Fund as instrumental towards implementation of IPC should have been supported by the entire international community. We believe that if the Common Fund had been operational as was expected, it would have provided financial support for commodity development and for negotiations of additional international commodity agreements.

91. Another important short-term measure envisaged in dealing with the commodity situation was to have included compensatory financing. There are at least three examples of these facilities at different stages of operation. Its aim is complementing rather than substituting price support. From the point of view of Africa, price support and the compensatory financing are critical aspects of the Integrated Programme for Commodities. However, in critical situations such as those prevailing in Africa to-day, the IPC would require to be given an emergency dimension. It is for this reason that considerable attention is given to the possible use of compensatory financing arrangements to sustain export earnings of developing countries as one of the long term measures. This is especially because such a facility has the potential of stimulating export earnings through greater participation by African countries in the marketing, processing, distribution and transportation of our commodities. Consequently, the international

community should assist in increasing investment in production, improving processing facilities and distribution as well as local transportation of commodities. Similarly, efforts should go into removing the apparent systematic discrimination in tariff structures of developed countries against processed and/or semi-processed commodity-based products exported by developing countries.

92. An important aspect of the commodity agreements should involve assistance in the processing, marketing and distribution of selected commodities from the African region. For this reason, UNCTAD should agree to solicit international co-operation including that of the private sector in which transnational corporations (TNCs) are an important factor in establishing processing plants in developing Africa with a view to enabling the latter economies to accelerate economic development. The decision to process primary commodities in the producing countries with the assistance of the importer developed countries would facilitate international co-operation of mutual advantages to both parties. The producer countries would gain through better prices and hence improved export earnings as well as increased employment opportunities. The developed countries on the other hand would gain from increased purchasing power for imports by Africa resulting from increased incomes. This is the true basis for global intra-dependence. Similarly, earlier in the analysis, mention was made of the mechanisms used in price-stabilizing in international commodity agreements (ICAs). As was stressed at the Third special session of the Committee on Comodities (3-13 June 1985), buffer stocks alone were unlikely to stabilize prices unless endowed with substantial and readily available finance or unless buttressed by quota arrangements or a combination of both. This implied the acceptance of universal producer and consumer participation.

(c) Improvement in the international environment for commodities

93. Many of the issues concerning the external factors that aggravate the African situation need to be addressed and examined in the competent forums. In this context, UNCTAD VII should agree on the most effective ways of implementing the following General Assembly decisions relating to commodities:

(i) To evolve and implement policies conducive to sustained, equitable and non-inflationary growth, including the expansion of trade through, inter-alia, the elimination of protectionism, particularly non-tariff barriers, in accordance with existing commitments, the adoption of measures which encourage African exports and diversification programmes, and improved market access, especially for tropical products, within the framework of the General Agreement on Tariffs and Trade.

(ii) To deal urgently with commodity issues, taking into account the special interests of the African countries, in the framework of an overall approach, embracing commodity agreements/arrangements and adequate compensatory financing, and also to increase the capacity of African countries to process, market, distribute and transport their exports; and in this context to stress the importance of sufficient ratifications of the Agreement Establishing the Common Fund for Commodities, for it to become quickly operational.

94. We also wish to stress that a large number of the proposals made in the Buenos Aires Platform adopted by the Group of 77 in 1980 still remain valid in so far as they were not accepted or implemented by the international community, especially the developed countries. More specifically, we reiterate that UNCTAD should agree to implement the following proposals to improve the international commodity situation:

(i) The Soviet Union and the other socialist countries of Eastern Europe should sign and ratify the Common Fund in order for them to translate into practice their solidarity with developing countries;

(ii) Similarly, we appeal to the United States of America to ratify the Common Fund in the interest of relieving the suffering of the commodity dependent developing countries.

(iii) We urge all countries, whether producers or consumers, to participate in all negotiations on individual commodities, keeping in mind the overall balance of benefits they are likely to derive from the IPC as a whole.

(iv) We strongly appeal to developing countries members of the Group of 77, to strengthen their mutual co-operation in the field of commodities with a view to evolving common proposals for international action within the framework of the Caracas Programme of Action. At the same time, steps should be taken to expand demand in potentially dynamic markets, which lie in the developing countries themselves. Special measures, such as special trading regimes and trade promotion programmes, should be adopted to increase growth in demand in developing countries beyond what would take place in response to market forces. To this end, we further appeal to industrialized countries (both East and West) to support these efforts and to desist from adopting action that negates efforts towards collective action by developing nations with regard to commodities.

(v) We request the application of effective supply regulation measures within the framework of existing ICAs or within the framework of ad hoc interim international arrangements for other commodities not covered by ICAs, pending the completion of the negotiations of formal agreements for them, with a view to stabilizing the prices of commodities exported by developing countries at remunerative levels. To that end, the Common Fund should mobilize financing to meet the requirements of these interim arrangements.

(vi) We specially appeal to industrialized countries to enter into commitments specifically for the facilitation of redeployment of productive capacities such as (a) specific targets for the composition of commodity imports in terms of minimum shares of processed form, and (b) international arrangements for reducing on a collective basis the cost of acquisition by developing countries of technology for local agricultural processing.

(vii) As a precondition for attaining (5) above, we appeal to industrialized nations for liberalization of access to their markets including the elimination of all remaining customs duties and internal taxes levied on commodities imported from developing countries as well as of all other prohibitions and restriction and in particular, the immediate eliminition of all forms of tariff-escalation affecting exports of semi-processed commodities from developing countries.

We also call for the setting of a time-table for the phasing out of internal and bilateral «voluntary» export restraints, orderly marketing and similar agreements restricting imports of processed commodities from developing countries as well as substantial improvement of the Generalized System of Preferences (GSP).

(viii) We specifically appeal for adequate technical and financial resources for expanding primary commodity processing marketing and distribution by developing countries as a basis for more equitable distribution of gains from commodities by the producer and consumer countries. More specifically: (a) the capital base of international financial institutions should be strengthened (b) there should be established a special financing facility for the processing of natural resources, particularly minerals and metals which might be difficult to accommodate within the structure of existing international financial institutions; (c) financing opportunities should be increased for the poorer and the relatively small developing countries which are rich in natural resources but lack the capacity to prepare feasible projects and mobilize private capital on their own initiative, especially the least developed countries.

(ix) With respect to marketing, transportation and distribution, we request for improvement in market transparency through the adoption of practical and administrative modalities for collection and dissemination of information on a non-discriminatory basis, including in particular access by developing countries to transborder data flows. To this end there should be a substantial increase in technical and financial support for the development of national marketing and distribution systems of developing countries, including the establishment and strengthening of commodity exchange in developing countries.

(x) We call for arrangements to be agreed upon for the development of model of guideline contract clauses for the sale and purchase of commodities of export interest to developing countries, including a system for evaluation of the use of commodity contracts in international trade.

(xi) The greater participation by developing countries in the maritime transportation of their raw, semi-processed and processed commodities, including in particular availability of adequate finance in this regard would increase benefits accruing to them on commodity trade. We therefore appeal to international owners of shipping lines, cargo and container lines to show magnanimity in this respect.

(xii) We urge for substantial enlargement and liberalization of the IMF Compensatory Financing Facility so as to put at the disposal of a larger number of developing countries financing on an adequate scale and subject to lower conditionality to effectively meet their needs. Similarly, we appeal to IMF to make special arrangements for the least developed countries within the subsidization of their interest charges, lower conditionality and a longer repayment period.

(xiii) With regard to the Socialist countries of Eastern Europe we urge them to make a proportionate effort through a special facility, within the International Investment Bank or the International Bank for Economic Co-operation, to support shortfalls in earnings of developing countries from commodity exports as part of a genuine effort on their part to contribute more positively to Africa's economic recovery, growth and development.

PART IV

NEW DIRECTIONS IN INTERNATIONAL TRADE

A. GENERAL SITUATION

95. An issue that preoccupies African governments is that the international trade and economic environment has over the past five to six years, increasingly been adverse. Progressively, African countries are getting less and less out of the international relations. The world adverse economic situation is particularly heightened by developments that tend to impair the capacity of many African countries to develop, let alone their ability to sustain the momentum of growth. The most severe setback to Africa's prospects for growth, recovery and development has manifested itself through international trade relations which tends to be based on the principle of unequal partnership. On the one hand, many developed countries have been increasingly taking to protectionism while African countries, on the other hand, seem to be unable to cope with what structural adjustment demands. A combination of some of these factors provides a basis for a crisis of confidence among African countries in international economic relations. 26/

96. Another issue is that while in principle, the concept of interdependence has generally been accepted, in practice, this applies only among the industrialized countries themselves. In fact recent policy shifts by some developed countries have given birth to the development of a pessimistic atmosphere among African countries about the ability and willingness of the international community or that restructuring international trade in commodities would respond to Africa's economic needs. It is worth recalling that while the current economic crisis in Africa has been triggered less by successive years of drought, it was the unfavourable international economic conditions which caused a deterioration in terms of trade, heavy external debt burdens and inadequate financial flows. The outlook for revitalizing development and growth through international trade in commodities in a predictable and supportive environment seems rather bleak so long as the current unfavourable economic environment persists. These developments have had far-reaching devastating effects not only on investment and growth, but also in disrupting the maintenance of productive capacity and the general social economic infrastructure.

97. The disappointing aspects of international relations is that Africa gives prominence to and participates actively in UNCTAD negotiations in the hope that agreements reached can stimulate development prospects. There is the expectation of improving the security of supplies for consuming countries while at the same time stimulating production and development in the producing third world countries. Therefore, in this part of our submission we have reviewed the following critical elements in international relations and made proposals for consideration at

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26/ See ECA, Review and Assessment of the Sixth Session of UNCTAD, Addis Ababa May 1984, E/ECA/CM.10/TRADE/11.

UNCTAD VII : recent trends, especially those having a bearing on Africa s external economic relations: changes in external trade relations with both traditional and non-traditional trading partners and certain policy challenges which require addressing in the context of the agenda of the seventh session of the United Nations Conference on Trade and Development (UNCTAD) by returning to some of the recommendations made in the Libreville Memorandum.

B. MAJOR TRENDS IN INTERNATIONAL TRADE RELATIONS

98. We are gravely concerned by the sluggish pace of the world economic recovery which has shown the extent to which the international economic situation can be susceptible to uncertainties such as interest rates and exchange rates fluctuations under the 'trickle down' theory, experience has shown that recovery in the developed industrialized economies do not favourably affect the pace of progress of developing economies. In other words, growth in the industrialzed countries do not necessarily trickle down to developing countries in the same way, basically because of the differences in the economic strength and the inability of the developing countries to take advantage of new trade and economic opportunities.

99. What are the major concerns of African countries in respect of global trends? According to statistics of the United Nations Secretariat, world output in 1985 grew by 3.6 per cent as against 4.6 per cent in 1984. The main cause of this is attributed to the slow down in the rates of growth in a number of principal countries like the United States of America, Japan and to a certain extent, the so called Newly Industrializing Countries (NICs) in South-East Asia and Latin America. The economies of most African countries on the other hand, faired much worse than others in terms of output and growth rates.

100. An analysis of some trends in Africa shows for instance that in 31 countries, the Gross Domestic Product (GDP) at current prices had dropped in 1985 to below the levels reached in 1980, two were found in North Africa (Algeria and Egypt), two others in West Africa (Cape Verde and Guinea) five in Central Africa (Burundi, Cameroon, Equatorial Guinea and Rwanda) and seven in the East and Central Africa (Angola, Djibouti, Ethiopia, Mozambique, Seychelles, Tanzania). Countries like Malawi and Gabon also had lower GDP in 1985 than in 1980 but with fairly prolonged higher levels in the intervening periods.

101. Coupled with these development was a slow down in demand for products of export interest to Africa which resulted in substantial drop in Africa s total world exports. To illustrate this point, the volume of world trade in 1985 increased over the previous year from US$1,903 712 million to US$1,905 587 million respectively. On the contrary, that for Africa fell from US$62,71[illegible] million in 1984 to US$ 60,941 million in 1985. The paradox in Africa unlike in the other regions of the world is that whilst exports earnings were on the decline, the region's total imports continued to soar, rising from US$62,1[illegible] million in 1984 to US$66,694 million in 1985.

102. The most disappointing aspect of Africa's performance in international trade related to the export of goods and services. Only ten countries (Egypt, Côte d'Ivoire, Mauritania, Sénégal, Burundi, Guinea, Equatorial Guinea, Angola, the Comoros, and Seychelles) had attained modest increases in this area. The majority of African countries experienced a drastic drop in their export earnings. For countries such as Ghana for instance the drop in 1983 was almost five times below the level recorded in 1980. Ghana's exports of goods and services in current prices fell from US$1,730 million in 1980 to US$378 million in 1985. In other countries like Libyan Arab Jamahiriya, Nigeria, Lesotho, Mozambique, Tanzania and Zambia, the fall in 1985 was more than twice the levels attained in 1980. This underscores the deep-rooted nature of the structural adjustment problems required for in Africa.

103. We have repeatedly stated in the past six session of UNCTAD that the growth and pattern of international trade are inextricably linked to financing and payments arrangements. This view has been born out by UNCTAD secretariat which concluded that this is especially evident during times of international financial stress as that prevailing since the outbreak of the debt crisis in 1982. The difficulties experienced by developing countries during this period have highlighted many key relationships between the availability to financing and levels of trade and the activity world-wide on the one hand, and among types of international lending and payments arrangements on the other. 27/ Among the many lessons or consequences of these phenomena have been the lower levels of trade of the African region (exports and imports). In other words, the financial stringency in the world markets compelled many African governments to adopt deflationary policies. The connections between financial stringency and the failure of macroeconomic policies, especially their impact on international trade of developing countries is indicated by the deteriorating balance-of-payments situation 28/.

(a) Relations with Traditional Partners

104. In order to fully understand the position of Africa in international relations we have divided the analysis into two forms. On the one hand, what we have, traditional relations with the former metropolitan countries and other members of the Organization for Economic Co-operation and Development (OECD). On the other hand, the non-traditional relations related to contacts with the centrally planned economies (socialist countries of Eastern Europe) other developing regions in Asia, Latin America and the Caribbean. There are also relations with other African countries through intra-African trade.

27/ See UNCTAD, Consideration of the present situation and current problems in the Field of Trade Financing, TD/B/C.3/212, 11 July 1986, para.1.

28/ See also, UNCTAD, Trade and Development Report, 1984, UNCTAD/TDR/1/Rev.1, United Nations Publication, Sales No. E. 84, II.D.23, Part III; and Trade and Development Report, 1985, UNCTAD/TDR/5, United Nations Publication, Sales No. E.85, II.D.16, Overview and Part Two, Chapter IV.

105. The main issue of concern here is that developments in the traditional partners often adversely affect the African economies. This has especially been the case with regard the main changes occuring in Africa's external trade relations which have been caused by instability in and the collapse of commodity prices, the impact of supply and demand and the difficulties of commodity and market outlet diversification. In this scenario, the evolution of policies in the major developed market economies have been the most important single determinant factor of economic development. For instance, the slowdown of growth in 1985 and especially the slackening of demand in the United States, created considerable difficulties for most developing countries. This can be noted from the drop in both value and volume of exports of the African region. An attendant element of some significance in recent years and which contributed to weakning prices for many primary commodities was expansion of supply in the face of stagnant or slowly growing demand.

106. New directions in international trade relations between developing Africa and its traditional trading partners will of necessity have to build both on their past and current positions. Their relations in the past and currently are basically of partners at different levels of development. Their co-existence is one where the developed industrialized countries mainly import primary commodities of agriculture and minerals from the developing countries and export to the latter non-primary and manufactured items. The resulting unfavourable world economic situation, compounded the recession in Africa's traditional trading partners markets but it cannot be held solely responsible for the drop in Africa's export share in these markets which fell by 8.3 per cent from 81.80 per cent in 1980 to 73.49 per cent in 1985.

107. Perhaps the most startling paradox of these past and current events lies in the fact that the decline in the share of Africa's trade occurred in spite of the existence of such formal arrangements like the Lome Convention. The Lome Convention is a formal and legal arrangement between members of the European Economic Community (EEC) and African countries who are members of the Africa, Caribbean and Pacific (ACP) group of countries. Here, the problem has been arising from the fact that reductions in tariff barriers to the trade enjoyed by developing countries under the Lome Convention, to improve Africa's external trade position since these exclude important elements like protecting uneconomic production in the EEC. The Lome III Convention has been acclaimed by its signatories as an instrument that gives respectability to the concept of interdependence between countries or regions at different levels of economic and industrial development. In the view of African countries, this Convention is relatively better than its predecessors because of some improvements to Stabex, a mechanism intended to ensure greater export possibilities for the ACP countries into the EEC. On the contrary and since coming into effect of this Convention, Africa s export share in the market of the EEC market fell from 55.01 per cent in 1980 to 49.02 per cent in 1985.

108. This fall in Africa's export share into the EEC underscores some of the imperfections of this global arrangement. It also is a reflection of the rividity of some of the trade policies of some of the member States within the EEC who will not compromise their trade and agricultural policies. A case in point is EEC s unyielding attitude to any suggestion for modification to the

Common Agricultural Policy (CAP) which, by a system of 'variable levels' they ensure and maintain high domestic prices for their agricultural commodities 29/.

109. Our concern about trends in international trade also applies to the negotiations in the General Agreements on Tariffs and Trade (GATT). The lowering of tariffs which is basic to membership in GATT provides limited advantages to developing Africa which faces many export problems as has been shown in Part II of this submission dealing with commodities. The issue here is that the tariff reductions in the industrialized importing countries on primary commodities are not sufficient to generate new demand for these commodities. The paradox of the matter is that even if tariffs were reduced further, there would hardly be any increase in consumption in those countries. The issue therefore is not only that of reduction in tariffs but also the elimination of non-tariff barriers. These are government measures, a built-in potential for restricting imports. They have, as a matter of fact, become relatively more conspicuous impediments to trade with the scaling down of tariffs since the creation of GATT after the Second World War.

110. Another important matter of concern to Africa which influences our trade relations with traditional partners relates to activities of the private sector, especially the transnational co-operations (TNCs). As is well known, all production and distribution activities including processing, marketing and storage, pricing of commodities, private capital investment and technological transfers are largely controlled by TNC conglomerates operating from the territories of Africa's traditional partners. The problem therefore, is to devise possible new directions of economic relations with the traditional partners which will provide a climate where TNCs can progressively make effective contribution to Africa's international trade relations, especially as agents of transfer of technology from the 'north' to the 'south' which has characterized the latter's dependence on the former. To this end, appropriate conditions will need to be created to enable TNCs involved in factor production, processing, marketing and distribution to be genuinely associated with the development plans of the respective economies in which they operate.

(b) Relations with non-traditional trading partners

111. African countries have always cherished the idea of trade diversification away from the traditional partners. Therefore, the trade with socialist countries of Eastern Europe, as well as South-South Trade, has been welcomed as a measure towards attaining such objectives. The aspiration is to engender through negotiations, trade relations that would eliminate some of the major and peculiar handicaps faced by developing African countries with their traditional partners referred to in the preceding section. The issue of non-traditional partners for the African region is considered at two levels. The first one covers relations

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29/ See Hans Singer and Javed Ansari, Rich and Poor Countries, Third Edition, George Allens-Unwin, 1982, p. 71.

with countries of the centrally planned economies or the socialist countries of Eastern Europe and the second deals with Africa's participation in activities leading towards economic cooperation among developing countries (ECDC).

112. According to data available for the period 1984-1985, it is shown that Africa's trade with non-traditional partners was still relatively small in comparison with that of traditional partners. For instance, Africa's exports into the markets of the socialist countries of Eastern Europe constitute less than 20 per cent of world trade. A feature of this trade is that only a very small number of socialist countries of Eastern Europe account for the bulk of trade with the African region and commodity composition of trade is quite similar to that with the developed market economy countries. In other words, the socialist countries of Eastern Europe tend to restrict their economies to importing from Africa' primarily commodities of agriculture and minerals.

113. Renewed interest by the African countries to promote trade and economic relations with the socialist countries of Eastern Europe stems in part from a realization of the possibility of mutually exploiting their inherent potential. The emergence of socialist countries of Eastern Europe during the last quarter of a century as important trading partners has given developing Africa an alternative in its search for more diversified market outlets. Moreover, the former have been contributing to the latter's development process through various cooperative schemes.

114. Amid declining share of primary commodities in world trade, it is believed that there are better prospects for increasing exports of these comoodities to the socialist countries of Eastern Europe. The combined market of these socialist countries other than the USSR, will to a very large extent, rely increasingly on imports of non-ferrous metals, natural rubber phosphates, jute and other products exported by developing countries, especially Africa, to meet their requirements 30/. On the other hand, projections show a likely substantial reduction in agricultural imports by these countries, especially food grains. All the same, the envisaged diversification of the consumption pattern will most probably lead to a rise in the import of non-cereal products like tropical fruits, coffee, cocoa and the kind.

115. We are hopeful that within the new trade relations to be negotiated, the Socialist countries of Eastern Europe will genuinely assist Africa to develop our industrial capacity in order to expand and diversify our external trade with them. This is one of the principal objectives of intensification and expansion of economic co-operation arrangements with this group of countries. This should aim at accelerating African industrialization as the basis for mutual trade and co-operation. This goal requires a structural policy, such as joint venture industries established in the African region with a view to increasing the capacity of processing local raw materials, leading thereafter to growth in exports as well as imports under countertrade arrangements.

30/ UNCTAD, Prospects for Trade and Economic Co-operation among Countries having different Economic and Social Systems, UNCTAD/ST/TSC/6, p. 15.

116. One of the major problems in the sphere of Africa's trade relations with the socialist countries of Eastern Europe is the lack of adequate export credits and payments systems. Both groups of countries are faced by a scarcity of convertible currencies, although in practice the constraint is more pronounced in case of the African countries. Various payment arrangements which make less use of convertible currencies have been tried but their impact on trade has been minimal. In the light of some of these difficulties, the possibility of establishing some forms of clearing arrangements is almost inevitable, especially given the worsening payments situation for most African countries. This is critical because besides having overall deficits of balance of payments the African region has also persistent trade deficits in its trade with the socialist countries of Eastern Europe which necessitates introducing certain measures to overcome the constraints of insufficient resources in hard currency.

117. Another important area of Africa's non-traditional trade and economic relations relates to activities within the context of ECDC. Here, the problem is that the degree of interdependence among developing countries is not as pronounced as that with the developed market economy countries. For instance, the flow of exports from developing Africa to other developing regions is subject to contractions of the latter's import capacity especially, their falling commodity earnings.

118. We in Africa realize that for some time to come we would derive marginal advantages from ECDC. However, we believe that as a long-term arrangement, ECDC is beneficial to us. Therefore despite, these adverse revelations, Africa is still as committed as before to the Arusha First Short Medium Term Plan on Global priorities on Economic Co-operation among Developing Countries. This is the reason why several African countries have taken steps to indicate that they are prepared to take part in the Negotiating Committee of the Global System of Trade Preferences among Developing Countries (GSTP). We are fully aware that in the initial stages, their economies will not be major beneficiaries since they lack an adequately developed industrial base. However, we have taken this step in the belief that long-term objectives of GSTP outweigh the initial disadvantages.

C. PROPOSED NEW DIRECTIONS IN INTERNATIONAL ECONOMIC RELATIONS

119. As can be judged from the concerns expressed in Part I of this submission, we in Africa attach great importance to the establishment of an international climate within which all nations, big and small; developed and underdeveloped, derive equitable and fair advantages from global economic growth and recovery. We also believe that, within the agreed programme of Action for the New International Economic Order, such recovery should not be envisaged in terms of prosperity of the industrialized nations first while developing African countries receive the residual benefits if any. Consequently, our conception of global interdependence implies the adoption of simultaneous recovery measures in both developed and developing countries so as to ensure real and meaningful balanced growth in the world economies.

120. We are concerned that the results of past negotiations in UNCTAD, GATT, World Bank/IMF and even the ACP-EEC Lome Convention seem to indicate that the North-South dialogue has somehow grounded to a halt 31/. The failure of UNCTAD VI is another manifestation of the collapse of the dialogue. Various reasons are expounded for this phenomenon some of which were discussed in some detail in Part IV of this report. Intensive efforts have been made at different levels to review the North-South dialogue and make it really work 32/. Therefore the proposals put forward below are an addition or refinement of proposals which might have already been made in the multiplicity of studies and treaties produced on this matter. Two issues need emphasizing:

(a) The apparent collapse in the North-South Dialogue can be attributed directly to the lack of genuine consultative machinery at international level based on the principle of "universality". Developing countries often justifiably complain about not being consulted on decisions by the industrialized nations which adversely affect them. A new effort therefore needs to be made, especially by industrialized nations to improve the mechanisms for consultations with developing nations affecting all aspects of world economic issues especially in the field of international trade, money, finance, energy, technology, industry and global food security recognizing the present character of interdependence of nations. Developed countries should resist the insistance towards "unilateralism" in the decisions in these issues especially when they adversely affect the developing countries. Similarly, developing countries should also devise mechanisms for consulting with the industrialized countries on major decisions they wish to take if such decisions require any form of of support from the latter. Such consultations would be taken at bilateral levels through embassies or special missions or at multilateral levels through established channels such as the United Nations, the World Bank and the IMF. The industrialized nations regularly hold such consultations between each other and there is no reason why this could not be extended to developing nations.

(b) A major weakness of the present international economic system lies in its inability to implement its own decisions or resolutions even where a general consensus has actually been reached. Therefore, new directives should be developed within UNCTAD to effectively follow-up on the implementation of decisions and recommendations adopted within the forum. The developing countries should be willing to shoulder their responsibility alongside the industrialized nations in this respect. The developed countries, on the other hand, should avoid adopting evasive action or tactics which delay or frustrate the implementation of agreed decisions taken in international forums. It should be stressed that the tendency towards the "polarization" of interests and the politicization of the decision process in UNCTAD and other bodies has largely been responsible for non-implementation of resolutions and decisions. Furthermore, the need for strengthening economic "interdependence" is extremely crucial to a healthy revival of the world recovery in which both industrialized and developing nations can have assured equitable advantages.

31/ See also North-South Dialogue - A Programme for Survival, (The Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt), Pan-World Books, London 1980.

32/ See for instance the North-South Dialogue - A Programme for Survival, op.cit. pp. 257 et. sep. and Annex I on Recommendations; and Commonwealth Secretariat, The North-South Dialogue (Making it work) London 1982.

121. Therefore, in order to improve the international trade relations, we reiterate the position we adopted during UNCTAD VI negotiations as stated below :

(i) Undertake a review of 'protectionism' in industrialized countries likely to adversely affect the trade of developing countries and set a time-frame for their dismantling and for the implementation of already agreed international measures, relating to trade;

(ii) Elaborate internationally agreed policy measures with respect to production, employment, consumption and trade in agriculture, in order to enhance the export of developing countries;

(iii) Elaborate and agree on measures for the improvement of the Generalized System of Preferences (GSP) in particular within the context of the New Round of Trade Negotiations, in terms of its coverage, and mode of operation by according priority to the products of the least developed countries and especially processed and semi-processed products, devise appropriate means to eliminate or rebate internal taxes levied in developed countries on products imported from developing countries and particularly, the least developed among them;

(iv) Ensure that the provisions of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices are effectively implemented including those related to the institution of technical assistance advisory and training programmes, and instruct the Intergovernmental Group of Experts on Restrictive Business Practices to make recommendations in respect of possible improvements of these principles in order that it may achieve the objectives established;

(v) Formulate international policies aimed at assisting developing countries in their efforts to diversify the export base by facilitating the strengthening of the financial, commercial and other infrastructures especially with regard to the experts of processed and semi-processed products.

122. In order to address the above weaknesses, we, therefore, strongly appeal to the seventh Session of UNCTAD to persuade all those concerned, to endorse and devise effective international mechanisms already adopted by the Special Session of the United Nations General Assembly on the Critical Economic Situation in Africa 33/.

33/ For the full text, see resolutions S-13/2 of the United Nations General Assembly on United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (1 June 1986).

PART V

AFRICAN LEAST DEVELOPED COUNTRIES

A. BACKGROUND

123. It will be recalled that a comprehensive Programme of Action for the least Developed Countries (LDCs) was first conceived by developing countries at the G-77 Ministerlal Meeting in Arusha in February 1979 and outlined in UNCTAD resolution 122(V) adopted at Manila in May 1979. However, it became evidently clear that a programme of sufficient size and intensity was needed to enable the Least Developed Countries to achieve the necessary structural changes for self-sustained growth and development. Hence, the United Nations General Assembly decided in Resolution 34/203 of 17 December 1979 that UNCTAD should organized a United Nations Conference specifically devoted to a critical examination of the LDCs' socio-economic problems and to devise ways and means of promoting the necessary structural changes through international co-operation.

124. UNCTAD convened the United Nations Conference on the Least Developed Countries in Paris from 1 to 14 September 1981 which adopted the Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA). The programme was subsequently endorsed by the United Nations General Assembly in Resolution 36/194 of 17 December 1981. The objectives of the SNPA are: (a) to promote the structural changes necessary to overcome the Least Developed Countries' extreme economic difficulties, (b) to provide fully adequate and internationally acceptable minimum standards for the citizens; (c) to identify and support major investment opportunities and priorities; (d) to mitigate, as far as possible, the adverse effects of natural disasters.

125. The SNPA is a long-term programme that spells out domestic measures to be taken by the LDCs themselves and international support measures for the implementation of the country development programmes. The measures are generally consistent with the third United Nations International Development Strategy, the Lagos Plan of Action and the recently adopted African Priority Programme for Economic Recovery (APPER).

B. RECENT ECONOMIC PERFORMANCE OF AFRICAN LDCS

126. We are very concerned that despite the existence of the SNPA, the African LDCs experienced a persistent deterioration in their economic growth between 1981 and 1984, as a result of the deepening domestic economic crisis occasioned by a hostile international economic environment as well as natural calamities and disasters, notably the drought conditions since 1982. The overall GDP (at 1980 constant prices) recorded an average annual growth rate of only 0.12 per cent in real terms during 1981-1984 with a marked recovery in 1985 of 2.3 per cent. This compares unfavourably with growth rate of 2.8 and 3.6 per cent achieved in 1970-1975 and 1975-1980, respectively. The per capita income growth averaged minus 2.5 per cent between 1981 and 1984 (i.e. $158.1) and in 1985 a growth rate of -0.3 per cent was recorded (at 1980 prices) or $125.4. The SNPA was intented to enable each LDC to increase its national income substantially, and in appropriate cases doubling it by 1990 as compared with the levels attained in the 1970s which would require an annual growth rate of 7.2 per cent. Apart from two countries, all the African LDCs registered average annual real GDP growth rates between 2 to 4 per cent during 1981-1984 which is far below the SNPA target of 7.2 per cent.

(a) Agriculture

127. One of the major problems which the LDCs encounter has been their inability to sustain high levels of outputs and growth in the agricultural sector. The SNPA stipulates that the LDCs should aim at an annual growth rate of 4 per cent in the agricultural sector in the 1980s. During 1982-1984, the sector was adversely affected by the drought. Output in real terms in the African LDCs as a group declined from 1.6 per cent in 1981 to 1.2 per cent in 1982, minus 2.2 per cent in 1984. With good rains in 1985 this trend was reversed to an increase of 2.6 per cent and estimated to be around 4.8 per cent in 1986.

128. The main bottlenecks include the drought which spread across the African region and is still experienced in many parts, especially the Sahel. This seriously jeopardized food and livestock production and resulted in low productivity generally. The inadequacy of agricultural pricing system, supporting infrastructures and lack of essential inputs have also curtailed agricultural production. The principal measures adopted by the African LDCs, among others, consisted of curbing the adverse impact of cyclical drought through water supply management; increases in agricultural producer prices and the simplification of distribution channels. However, these measures have not been effective in the absence of international support.

(b) Manufacturing

129. The performance in the manufacturing has not been any better than in agriculture. The SNPA requires that the LDCs should aim at an overall annual growth rate of manufacturing output of 9 per cent or more during the 1980s. The manufacturing sector accounts for about 7 per cent of GDP in African LDCs but grew by only 1.6 per cent annually between 1981 and 1983 as compared to 2.8 per cent during 1970-1980. In 1984, the sector recorded a steep decline of 6.6 per cent. Most LDCs also have a low rate of industrial capacity utilization averaging between 20 and 30 per cent. These negative trends are attributed to the small size of the domestic markets and the lack of export possibilities as well as the lack of foreign exchange resources to purchase industrial raw materials and other essential inputs.

(c) Balance of payments

130. In line with other developing countries African LDCs' export structure is dominated by a few range of primary commodities which face inelastic demand especially in the export market of developed countries. These account for both price and revenue instabilitywhich are characteristic of under-development. The countries also depend on imports for most of their consumption and capital goods requirements and a large proportion of spare parts and raw materials. In addition, a large share of their foreign exchange earnings is devoted to the importation of oil and foods which absorb well over 40 per cent of total export earnings. As a result of these conditions, the African LDCs had experienced persistent and chronic balance-of-payments problems.

131. According to the latest estimates, the balance of trade deficit of the Africa LDCs decreased from $5.16 billion in 1982 to $2.77 billion in 1984 rising again to $2.84 billion in 1985. Over the same period, the share of these countries in developing countries' trade was a mere 1.3 per cent, while accounting for only 10 per cent of total Africa's external trade. The current account deficit increased from $3.5 billion in 1983 to $3.96 billion in 1984 and $4.99 billion in 1985. The overall balance-of-payments deteriorated further in 1985 with an estimated deficit of $1.47 billion, signifying very serious problems.

132. The African LDCs suffer from export instability not only because of their narrow range of export commodities, but also because they face protectionism applied even against the small range of products which they manufacture. It is gratifying to note that this problem has been recognized by the international community. Thus, under the various schemes for compensation for short falls in exports earnings, three are noteworthy: (a) the IMF compensatory financing faculty (CFF); (b) the EEC stabilization of export earnings from agricultural commodities (stabex) scheme and (c) the special financing facility for mining products (sysmin) administered by EEC which has been referred to in Part II of this submission. We are, however, disappointed to note that between 1972-1982, the IMF/CFF recorded the lowest compensation for export short falls of African LDCs. For instance, in 1980-1982, the 27 LDCs of the ACP Group (26 in Africa) received a total transfer of only 123.7 million EUA (about $144 million) under the stabex which is very insignificant relative to the cumulative $10.3 billion current account deficit over the same period. The EEC sysmin scheme has also its drawbacks in that it does not cover the most important mineral exports of African LDCs, such as diamonds and uranium which together accounted for 50 per cent of the mineral exports in 1980-1982.

(d) External debt

133. As was demonstrated in Part III of this submission, many African countries are experiencing a serious external debt crisis, but the LDCs are particularly adversely affected. The debt problem of the African LDCs gathered momentum in the 1970s from a manageable level of $1.9 billion to $5.1 billion in 1975 and $13.3 billion in 1980 corresponding to an average annual growth rate of 21.8 per cent and 21.1 per cent in 1970-1975 and 1975-1980 respectively. In 1982, the total outstanding debt had reached a level of $16.1 billion and by the end of 1984, the total external indebtedness of African LDCs had reached $30.9 billion with a debt service estimated at 25 per cent of their entire export earnings as compared to 12.1 per cent in 1975 and 18.7 per cent in 1982. Most of these debts have been contracted as a result of the increased share of ODA loans in the overall concessional flows.

134. The point of concern is that the external debt of LDCs has become so overwhelming that a number of them have had to turn to various debt relief measures. These measures had ranged from multi-year rescheduling and in few cases debt cancellation mainly by the nordic countries and recently Canada. To alleviate the debt burden of African LDCs, various measures have been taken by the DAC countries. In fact, with the exception of Cape Verde, Equatorial Guinea and Sao Tome and Principe, all the African LDCs have had some form of Debt Relief Measures in its favour within the framework of UNCTAD Trade and Development Board Resolution 165 (S-IX).

C. NATIONAL ACTIONS TOWARDS THE IMPLEMENTATION OF THE SNPA

135. We are pleased to register the fact that since the adoption of the SNPA in 1981, all the African LDCs have established national focal points for the monitoring and follow-up of the implementation of the SNPA as well as setting up administrative machineries for the co-ordination of external assistance. National Development Plans and investment programmes and projects have been drawn up corresponding to the priorities of the SNPA. This is a demonstration of the

determination by these countries to improve their situation. In addition, in all 17 African LDCs have organized country review meetings with donors either under the aegis of the UNDP Round Table (RT) mechanisms or the World Bank Consultative Group (CG) meetings. In general, donors have appreciated the policy options of the LDCs as expressed in documentation prepared for the RTs or CGs but commitments have either been intangible or expressed in broad terms which makes follow-up extremely difficult. However, the LDCs are organizing periodic sectoral Round Tables to solicit commitments in concrete terms for their respective programmes and projects.

136. The African LDCs have also taken measures as required by SNPA, to effectively mobilize domestic resources that could be supplemented by external assistance for financing their development programmes. These include the broadening of the tax base either through increased taxation or the introduction of new taxes; reducing or eliminating subsidies to public enterprises and instituting reform measures to make them self-financing; stringent control in public expenditures; restructuring of interest rates as an incentive to lure potential savers and the mobilization of unemployed and under employed labour for capital projects.

137. We are, however, concerned that increasingly, donors are requiring, as a condition for bilateral assistance, that LDCs should enter into an agreement with the IMF on structural adjustment programmes with conditionalities which include exchange rate devaluation, the de-control of the pricing mechanisms, privatization of parastatals and reduction of public expenditure. Because of the dire need for external assistance by these countries, most of them have agreed to the terms of the IMF. The performances of these programmes are disquieting and in most cases, they have in many instances in disrupting social consequences and monetary policy misalignments leading to further economic destabilization of the LDCs economies.

D. INTERNATIONAL RESPONSE TO THE IMPLEMENTATION OF SNPA

(a) Existing situation

138. At the 1981 Paris Conference, the African LDCs (21 at the time) presented country development programmes with a total funding requirement of $133 billion (1980 prices) for the period 1981-1990. 60 per cent of which or $81 billion was to be met from external sources while 40 per cent or $52 billion was to be generated from domestic sources. Adding the external financing needs for development programmes of the five African countries which were placed on the list in 1982, ECA estimates a total external financing requirement of $96.5 billion or a flow of at least $9.6 billion per annum for the African LDCs.

139. The response by the international community has been rather disappointing. Total net official development assistance (ODA) from DAC countries, multilateral financing agencies and OPEC countries to the African LDCs has been virtually stagnant since 1980: $4,124.3 million 1981: $4,123.2 million, 1982: $4,231.5 million and 1983: $4,123.1 million. Of particular concern to the African LDCs is the current difficulties associated with contributions by major donors to multilateral financing agencies especially the International Development Association (IDA) which remains the largest element of uncertainty. In 1983, total net disbursements of multilateral ODA and non-concessional resources to the African LDCs was estimated at $1.6 billion, or 80 per cent of total DAC Bilateral ODA (grants $1.9 billion, loans $187 million) and non-concessional resources flows which altogether stood at $2 billion. This was hardly sufficient to meet the needs of the LDCs.

140. In view of the enormous resource requirements of the LDCs, the SNPA required that donors should aim at transfering 0.15 per cent of their GNP as ODA or to at least double their ODA to these countries by 1985. However, between 1981-1984, the total DAC ODA transfer as per cent of donor GNP was stagnant at 0.08 per cent. A comparative analysis of performance by donors indicate that by 1984, only five OECD members (Denmark - 0.30 per cent, France - 0.16 per cent, Netherlands - 0.30 per cent, Norway - 0.31 per cent and Sweden - 0.22 per cent) had actually attained or exceeded the SNPA threshold. On the contrary, a remarkably poor performance was shown by the three major industrialized DAC members (Japan - 0.07 per cent, United States of America - 0.01 per cent and Britain - 0.09 per cent). Total OPEC ODA as per cent of GNP is estimated at 0.25 per cent in 1983. No actual figures are available for the socialist countries of Eastern Europe, but it is a well-known fact that their response has not been positive or encouraging. In fact, it is feared in some quarters that military aid is often computed in the SNPA targets.

141. The grant element of total ODA commitments to LDCs reached the level of 100 per cent in 1982-1983 by two DAC countries (Australia and New Zealand). Also with the exception of Japan and Austria, the majority of DAC's assistance to LDCs was mainly in grant form. The conditions of ODA loans to LDCs such as terms of interest rates, maturity and grace periods have also been made increasingly flexible. However, a number of donors continue to tie aid to procurement of materials in their respective countries, while concessional assistance extended by OPEC countries has continued to be maintained free of procurement restrictions, the share of tied aid in DAC bilateral aid programme increased from 42 to 61 per cent between 1980 and 1982.

(b) Mid-term Global Review of the SNPA

142. In compliance with para. 119 of the SNPA which was reaffirmed by United Nations General Assembly Resolution 36/194 of 17 December 1981, the UNCTAD intergovernmental group of LDCs undertook a comprehensive review of progress towards the implementation of the SNPA in 1985. The meeting, which was held under the auspices of UNCTAD (Geneva, 30 September to 12 October 1984) took stock of what had been achieved in implementing the SNPA since 1981 with a view to recommending measures aimed at ensuring the attainment of the SNPA targets by the end of the 1980s. The Mid-term Global Review gave much consideration to the need for increased efforts from both the LDCs and donors in respect of the following key areas - increase in official development assistance (ODA) flows and its effective utilization; debt relief measures and export stabilization. 34/

143. With respect to ODA transfer, the meeting reaffirmed the 0.15 per cent of donor GNP as a minimum level of assistance required to sustain a reasonable rate of growth in the context of the SNPA target of 7.2 per cent GDP growth rate. The meeting also urged donors who had not done so, to increase their bilateral assistance to the LDCs at the level envisaged by the SNPA. While noting the extreme importance of multilateral assistance, especially the role of IDA resources in the structural adjustment programmes of the LDCs, the meeting expressed regret over the shortfall in contribution to IDA-7 and reiterated the appeal of the 27th meeting of the United Nations Development Committee which called for a successful and adequate eighth replenishment to be achieved in 1986.

34/For a comprehensive report on the debate, conclusions and recommendations see: TD/B/1078-TD/B/TC.17/28 - "Report of the Intergovernmental Group on the Least Developed Countries on its Sixth Session" (Geneva, 30 September - 12 October 1985).

144. With regard to LDCs' debts the Mid-term Global Review recognized that the debt service obligations of the LDCs have intensified over the past few years. The meeting then called upon creditors for public and publicly guaranteed debts to LDCs, when concluding debt rescheduling arrangements, to give due consideration to the LDCs structural adjustment measures for restoration of their debt servicing capacity and long-term growth.

145. The mid-term Global Review, after evaluating the external sector performance of the LDCs, particularly with respect to enhancement of their export earnings, noted that in conformity with the commercial policy measures envisaged by the SNPA, the international community should provide increased access to their markets for LDCs export commodities. Specifically, the IMF was requested to find ways and means of providing special consideration for the LDCs within the framework of its Compensatory Financing Facility. The revised meeting also recommended that the international community should pursue action towards facilitating the trade of the LDCs by reducing or eliminating tariff and non-tariff obstacles to LDCs export.

E. PROPOSED MEASURES FOR THE REALIZATION OF THE SNPA TARGETS

146. The foregoing analysis has clearly indicated that while considerable progress has indeed been achieved with respect to the implementation of the SNPA, a great deal more needs to be done to enable the LDCs to generate adequate recovery and growth. To achieve this, there is the need for individual governments and the bilateral and multilateral institutions (in both LDCs and the donor countries) to review their own aid policies and programmes to reflect the real needs of the LDCs. For this reason, we believe that specific measures need to be taken at the national level to be supported by international assistance. These measures are briefly outlined in the next several paragraphs.

(a) National commitments

147. Prior to the Mid-term Global Review, the African LDCs Ministers drew up a memorandum 35/which dealt with measures for the accelerated implementation of the Substantial New Programme of Action in the African region. The Mid-term Global Review took due cognizance of the memorandum in its deliberations as well as its conclusions and recommendations. These were reiterated and supplemented by Africa's Priority Programme for Economic Recovery 1986-1990 already referred to in the introduction. African LDCs are therefore urged to implement the measures which include: rehabilitation and reconstruction of the key productive sectors, especially the food, agricultural and industrial sectors; rehabilitation of existing transport and communication infrastructure, measures for the development of human resources. The establishment of effective maintenance facilities for motor vehicles, agricultural machinery and road construction equipment also form part of the package of measures for the LDCs.

35/ UNECA "Memorandum by the Conference of Ministers of African Least Developed Countries on the Mid-term Global Review of the Implementation of the Substantial New Programme of Action in Africa" - adopted at Fifth meeting of the Conference of Ministers of African Least Developed Countries held in Addis Ababa from 23-25 April 1985.

148. As we have shown earlier in the section, the economies of African LDCs being predominantly agricultural, efforts must be made to design strategies and policies which specifically include the establishment of appropriate agricultural support institutions capable of enabling agriculture to flourish as a foundation for broad national development. The African LDC governments have therefore put in place measures to improve traditional practices in agriculture, including the introduction of drought-resistant crops, water and energy resource management, and the adaptation of appropriate technological packages for increased food production. Efforts are also being made to include adequate budgetary resource allocation to agriculture as well as better incentives given to farmers, especially increases in producer prices and provision of basic inputs at competitive prices. An appropriate balance is also being established between cash and food crops production in an increasing number of African LDCs.

149. We are also fully aware that in order to achieve the SNPA target annual growth of 9 per cent or more set for the manufacturing sector, the African LDCs should undertake programmes to create a sound industrial base, in particular, to develop agro-based and agro-support activities and on the spot processing; promote the establishment of small and medium-scale enterprises and the increased utilization of domestic raw materials in basic industries. At the same time, increased emphasis is being placed on the mobilization of domestic resources. In this regard, the LDCs are paying greater attention to more effective and efficient utilization, management and proper maintenance of existing infrastructure equipment and spare parts. Furthermore, the African LDCs are assuming greater control of the aid co-ordination mechanisms and to that end, they have fully recognized need to intensify efforts to strengthen their planning capabilities with respect to economic and financial analysis, development planning and other instruments necessary for proper economic management, including resource management and external debts at both the technical and policy levels.

(b) International action

150. We greatly appreciate the response of the international community towards the African LDCs. However, more needs to be done as a future course of action, we propose that as a minimum requirement for international support, donors should endeavour to provide emergency assistance and financing of costs involved in the management of relief operation in African LDCs affected by food and other emergencies. We also propose total conversion of all bilateral ODA loans into grants on an indiscriminatory basis. Other measures should include substantial and multi-year scheduling of private debts including the waiving of service payments and/or outright cancellation of the debt and greater share of African LDCs in the existing compensatory financing facilities for export shortfalls, among others. Specifically, in addition to the overall action being proposed for developing Africa, the following measures are being proposed specifically for the LDC's:

(i) As a matter of priority we appeal to the international community to support African LDCs to attain a more balanced growth in their economies. In this regard, they should assist in maximizing capacity utilization of their productive economic units; support their efforts to increase their per capita food production; and in view of the energy problems, provide financial and technical assistance for research, exploration and development of energy resources. Part of such programmes should also consist in assistance to LDCs to achieve smooth structural adjustment and policy reforms.

(ii) We also appeal to multilateral financing institutions to seriously consider new mechanisms and arrangements for mobilizing increased financial transfers to the LDCs, including such measures as international tax schemes for development, further gold sales by the IMF; linking the creation of special drawing rights to development assistance and the use of interest subsidy techniques. The IMF should undertake a fundamental review of the principles on which its conditionality rests in such a way as to reflect the peculiar social, economic and political priorities of the African LDCs and allocate substantial portion of Special Drawing Rights (SDRs) Trust Fund facilities and compensatory financing facilities to these countries.

(iii) The balance-of-payments support in general must not be used to exercise political pressure on the least developed countries and should not be dependent on acceptance by these countries of measures and programmes which involve social costs that hinder their basic aims, objectives and priorities or compromize their political independence and national sovereignty.

(iv) With regard to aid modalities, we appeal to all donor countries to take immediate steps to provide ODA to the LDCs in the form of grants, and to indiscriminately provide loans on highly concessional terms and on an untied basis. They should also take steps to improve the quality and effectiveness of aid and eliminate the time-lag between aid commitment and disbursements.

(v) Developed countries should also take necessary measures to extend relief to LDCs for private debts and should promptly and fully implement Trade and Development Board Resolution 165 (S-IX) expeditiously convert all outstanding bilateral official development assistance loans into grants for all the LDCs indiscriminately.

(vi) With respect to international commercial policy measures, it is necessary for the developed countries to take steps aimed at enhancing the export trade of the African LDCs. Such measures should include substantial improvement in the GSP treatment for exports of these countries, with the objective of providing increased access for such products; use of more flexible requirements for rules of origin for LDCs exports; eliminate non-tariff measures affecting their exports; and to facilitate the participation of the LDCs in GATT agreements and arrangements.

(vii) Developed countries and international organizations should also assist the LDCs to create industries for on-the-spot processing of raw materials and food products; and the development of integrated projects for the expansion of exports and to provide adequate resources to overcome all supply bottlenecks.

(viii) With respect to compensation for shortfalls in LDCs export earnings, developed countries should consider the creation and their effective participation in a wider Stabex-type scheme specifically for LDCs primary commodities. Special arrangements should be considered for the LDCs in

the IMF Compensatory Financing Facility Scheme by providing for full coverage of their export shortfalls, for the subsidization of their interest payments on outstanding drawings and for a longer repayment and grace periods than hitherto.

(ix) In the context of economic co-operation among developing countries and in the spirit of collective self-reliance, developing countries in a position to do so, should provide assistance to the African least developed countries within the means available to them.